The Economist

Barack Obama v business

How to fix the euro

Great managers: born, not made?

Cleaning up sport

North Korea: thanks Dad

SEPTEMBER 25TH–1ST OCTOBER 2010

Economist.com

The world's lungs

Forests, and how to save them

A 14-PAGE SPECIAL REPORT

Home
This week's print edition
Daily news analysis
Opinion
- All opinion
- Leaders
- Letters to the Editor
- Columns
- KAL's cartoons
- Correspondent's diary
- Economist debates

World
- All world
- Politics this week
- International
- United States
- The Americas
- Asia
- Africa
- Middle East
- Europe
- Britain

Special reports

Business and finance
- All business and finance
- Business this week
- Economics focus
- Business education
- Which MBA?
- Management
- Economics A-Z

Economics
- All Economics
- Markets and Data
- Daily chart
- Weekly indicators
- World markets
- Currencies
- Rankings
- Big Mac index

Science and technology
- All science and technology
- Technology Quarterly
- Technology Monitor

Culture
- All culture
- Style guide

People
- People
- Obituaries

Diversions

Audio and video
- Audio and video library
- Audio edition

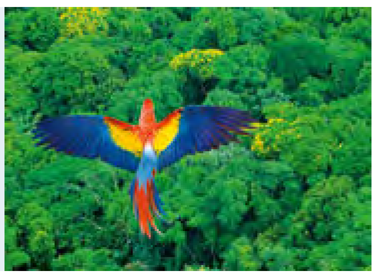
The World In
- The World in 2010
- The World in 2009
- The World in 2008
- The World in 2007
- The World in 2006
- The World in 2005
- The World in 2004

Research tools
- All research tools
- Articles by subject
- Economics A-Z
- Special reports
- Style guide

Country briefings
- All country briefings
- China
- India
- Brazil
- United States
- Russia

Print edition September 25th 2010

The world's lungs
There is hope for forests, but mankind needs to move faster if they are to be saved: leader



The world this week

Politics this week
Business this week
KAL's cartoon

Leaders

Forests and how to save them
The world's lungs

Nuclear weapons
Just do it

The North Korean succession
Thanks Dad

Barack Obama and business
The wages of negligence

Europe's single-currency woes
Euro follies

Israel and Palestine
Keep on fudging

Letters

On President Sarkozy, game conservation, Middle East peace talks, patents, Manmohan Singh, Damien Hirst, Zoroastrians, Rod Blagojevich

Briefing

The Millennium Development Goals
Global targets, local ingenuity

Child malnutrition in India
Putting the smallest first

United States

Barack Obama and corporate America
No love lost

Larry Summers resigns
The brains trust dissolves

The Florida Senate race
Is Rubio stoppable?

Barack Obama and Afghanistan
Get me out of here

Predatory fish
The carp tsar's struggle

The Gulf of Mexico oil spill
After the kill

Lexington
The perils of constitution-worship

The Americas

Venezuela's legislative election
Chávez grapples with a 50/50 nation

Energy policy in Quebec
High-speed gas

Brazil and peacekeeping
Policy, not altruism

Peru's reviving left
Oh! Susana

Asia

North Korea's succession
Next of Kim

China's spat with Japan
Deng's heirs ignore his advice

Previous print editions

Sep 18th 2010
Sep 11th 2010
Sep 4th 2010
Aug 28th 2010
Aug 21st 2010

More print editions and covers »

Subscribe

Subscribe to the print edition

Or buy a Web subscription for full access online

RSS feeds

Receive this page by RSS feed

A special report on forests

Seeing the wood

Money can grow on trees

Better REDD than dead

Keeping it in the community

Not a small problem

The long road to sustainability

Less smoke, less ire

Something stirs

Sources and acknowledgments

Offer to readers

Business

Brazil's mining giant
Valuable Vale

The wine boom in Hong Kong
Days of wine and tulips

Smartphones in South Korea
LG's woes

Retailing in South-East Asia
Exit Carrefour

Facebook on film
Screen test

Green energy
Wild is the wind

Corporate governance
Pointers for predators

Newspapers in India
Where print makes profits

Schumpeter
The wiki way

Briefing

How to run the euro
Fixing Europe's single currency

A Keynesian prototype
Standard solution

Finance and Economics

The yuan goes global
A Mao in every pocket

US-China trade relations
Speak less softly, carry a stick

Currencies
Trial of strength

Buttonwood
Busily going nowhere

America's consumer-protection agency
The big guys' lament

Italian banks
An exit unbecoming

Hedge funds
Tucking in

Economics focus

Articles flagged with this icon are printed only in the British edition of *The Economist*

The Economist

Politics this week

Sep 23rd 2010

American diplomats pressed Israel's government to extend a moratorium, due to expire on September 26th, on the building and expansion of Jewish settlements in the West Bank. A compromise should allow direct peace talks between **Israelis** and **Palestinians**, which resumed only this month, to continue. See article

South Africa's president, Jacob Zuma, appeared, for now, to have fended off critics within his ruling African National Congress and among his trade union allies at a party conference of 2,000 members.

Somalia's prime minister, Omar Sharmarke, who has been criticised for failing to defeat the Shabab jihadist movement, resigned amid feuds within the beleaguered transitional government, whose writ barely runs beyond the capital, Mogadishu.

Thousands of civilians fled the south **Yemeni** town of Hawta, which has been besieged by government forces trying to flush out a jihadist rebel group said to be linked to al-Qaeda.

At least ten people were killed when a bomb went off during a military parade in Mahabad, the main town in **Iran's** Kurdish north-western region. The Iranian branch of the Kurdistan Workers' Party, which operates mainly in Turkey, fell under suspicion.

Territorial talks

An international summit convened in Moscow to discuss competing territorial claims to the **Arctic Ocean**. Russia, Canada, Denmark, Norway and the United States have all made claims in the resource-rich region, which some believe could hold up to a quarter of the world's oil and gas reserves.

Sweden's four-party centre-right alliance was returned in a general election, but provisional results suggested it was short of an overall majority. The far-right Sweden Democrats entered parliament for the first time, winning 20 seats. See article

Ireland raised €1.5 billion ($2 billion) through a bond issue, slightly easing fears that it may be forced to tap EU bail-out funds. The auction was good news for Brian Cowen, the prime minister, whose leadership is under scrutiny after a recent allegedly drunken radio interview.

France raised its terror alert after receiving a tip-off from a foreign intelligence service about an imminent threat of attack by a female suicide-bomber on the public transport system. The alert came a week after the Senate, the upper house, voted to ban full Islamic veils.

In **Germany's** biggest anti-nuclear demonstrations for decades, tens of thousands took to the streets of Berlin to protest against the government's plans to extend the lifespan of Germany's nuclear reactors. More protests are scheduled. See article

Back to school

The White House announced that **Larry Summers** is to step down as director of the National Economic Council and return to Harvard. Mr Summers is the most senior economic adviser to Barack Obama to resign among a spate of recent departures. High unemployment and a

lacklustre economy continue to dominate the mid-term election campaigns. See article

Democrats in the Senate couldn't break a Republican filibuster on repealing "don't ask, don't tell", the policy that allows **clandestine gays** to remain in the armed forces, but under which thousands have been dismissed. The Pentagon is undergoing a review of the policy with a mind to repeal it and allow openly homosexual men and women to serve.

BP's **Macondo oil well** off the gulf coast was officially declared to be "dead", or sealed by cement. An explosion on the rig in April killed 11 men and was followed by the release of some 4.9m barrels of oil. A moratorium on deep-water offshore oil drilling was then imposed.

Election and ethics

Opinion polls suggested that Dilma Rousseff, the ruling party's candidate, is on track to win **Brazil's** presidential election on October 3rd despite an ethics scandal. Erenice Guerra, who replaced Ms Rousseff as chief of staff to Luiz Inácio Lula da Silva, the outgoing president, resigned over claims that she was complicit in a scheme of her son's to extract kickbacks in return for help with public contracts and loans. Ms Guerra denies wrongdoing.

In a front-page editorial addressed to drug-trafficking gangs, the main newspaper in Ciudad Juárez, on **Mexico's** border with the United States, asked for guidance on what it could and could not publish without suffering violent reprisals. The editorial followed the murder of an intern at the paper. It also complained of the lack of government protection.

Argentina's government stepped up its campaign against the country's two main newspapers, filing a lawsuit accusing them of complicity in crimes against humanity when they bought a newsprint business during the country's military dictatorship of the 1970s. The papers say the charges are bogus.

In a continuing shake-up of his economic team, **Cuba's** president, Raúl Castro, sacked the minister of Basic Industries.

Commonwealth shame

India's first Commonwealth games, scheduled to start in Delhi on October 3rd, are looking as much like a fiasco as anyone had feared with unsafe buildings, a collapsed bridge and an outbreak of dengue fever contributing to the chaos. Indian newspapers called it a "national shame". See article

More than a third of **Afghanistan's** eligible voters turned out on September 18th, defying the Taliban to vote in parliamentary elections. Official results are still weeks away, but NATO and other Western observers were quick to call the election a success. The country's main opposition leader claimed to have solid evidence of "massive rigging". See article

An army column in **Tajikistan** was ambushed by a party of Islamist militants, including fighters from Pakistan, Afghanistan and Chechnya. At least 25 soldiers, who had been searching for a group of insurgents who escaped from prison last month, were killed.

North Korea's state media reported that a conference of the ruling Korean Workers' Party is due

to begin on September 28th, following an unexplained postponement. The meeting's stated purpose is to "elect" a "supreme leadership body". See article

Business this week

Sep 23rd 2010

Eric Daniels, the boss of **Lloyds Banking Group**, which is 41% owned by British taxpayers, announced plans to retire in a year. Mr Daniels is one of several bank bosses, including Barclays' John Varley and HSBC's Stephen Green, to step down in recent weeks. See article

Not another Profumo affair

Alessandro Profumo, the chief executive of **UniCredit**, Italy's largest bank by assets, stepped down because of deteriorating relations with board members and some shareholders. Mr Profumo, who had been at the helm of UniCredit since 1997, was criticised by domestic investors for letting Libya take a 7.6% stake in the bank. See article

Blockbuster filed for bankruptcy, with plans to reduce its debt load from nearly $1 billion to $100m or less. The American film-rental chain said current holders of subordinated debt, preferred stock or common stock would get nothing back.

General Mills, an American food manufacturer, said quarterly profits had risen by 12% from a year earlier to $472m, on higher sales of cereal, yogurt and snack bars. But it gave warning that the price of raw materials could rise by 4-5% in 2011.

Profits at Spain's **Inditex**, the retailer behind Zara, a fashion chain, rose by 68% to €628m ($816m) in the first half of the 2010 fiscal year. The company, which has on average opened a store a day for the past few years, said that 72% of sales came from outside Spain.

France Télécom paid €640m ($858m) for a 40% stake in Médi Télécom, Morocco's second-biggest mobile operator. The French telecommunications giant hopes to use Méditel to expand in north Africa and the Middle East. It also plans to spend €7 billion in the region to double its sales in emerging markets.

Johnson & Johnson launched a €1.75 billion ($2.3 billion) takeover offer for Crucell, a Dutch vaccine manufacturer. The bid by the American health-care group continues a recent trend of consolidation among vaccine producers, such as Pfizer's takeover of Wyeth and Novartis's acquisition of Chiron.

Total **American consumer debt** declined for the seventh straight quarter to $11.7 trillion, a reduction of 6.5% from its peak in the third quarter of 2008. Bank write-downs of mortgages and consumer debt accounted for most of that $812 billion reduction.

Defaults on **corporate debt** should fall below 3% by the end of the year, according to Moody's, a credit-rating agency. The default rate, which measures the percentage of companies with "junk" credit ratings that failed to meet debt obligations, reached its peak in November 2009. But small businesses, which depend mainly on bank lending, are having a harder time getting capital.

Free money

The **Federal Reserve** kept the interest-rates target at zero to 0.25%, but said for the first time that inflation was below the level "consistent with its mandate". The central bank said that more

quantitative easing—the purchase of Treasury bonds or collateralised securities to ease credit conditions—was possible. Treasuries and gold rose in response but the dollar fell sharply.

China's prime minister, Wen Jiabao, ruled out large-scale appreciation of the **yuan** because it would cause “major turbulence in the Chinese society”. China, he added, had kept the yuan stable even as other currencies depreciated. See article

China denied reports that it had banned exports of so-called **rare-earth elements** to Japan after a dispute over the detention of a Chinese fishing trawler captain. Rare-earth minerals are crucial for products like hybrid cars, wind turbines and guided missiles. See article

Germany demanded that internet companies pay more heed to privacy concerns. The move came after a heated public debate about **Google Street View**, which provides footage from streets around the world. The German government has so far refrained from banning such things, but hopes that companies can come up with a publicly acceptable code of conduct. See article

Wholly unholy

Italy's finance police said they had seized €23m ($31m) held by the **Vatican** in an Italian bank and were investigating the Holy See's two leading bankers. Italian authorities claimed that the moves were part of a broad investigation into money-laundering.

Yale University and the National University of Singapore may set up a liberal-arts college in Singapore. The two universities signed a non-binding agreement to establish the college, which would have around 1,000 students, by 2013. It would be the American university's first foreign campus, though costs would be borne by Singapore's government.

KAL's cartoon

Sep 23rd 2010

The world this week

The Economist

Forests and how to save them

The world's lungs

There is hope for forests, but mankind needs to move faster if they are to be saved

Sep 23rd 2010

THE summer dry-season, now drawing to an end, is when the Amazon rainforest gets cut and burned. The smoke this causes can often be seen from space. But not this year. Brazil's deforestation rate has dropped astoundingly fast. In 2004 some 2.8m hectares (10,700 square miles) of the Amazon were razed; last year only around 750,000 hectares were.

This progress is not isolated. Many of the world's biggest clearers of trees have started to hug them. Over the past decade, the UN records, nearly 8m hectares of forest a year were allowed to re-grow or were planted anew. This was mostly in richer places, such as North America and in Europe, where dwindling rural populations have taken the pressure off forestland. But a couple of big poorer countries, notably China, have launched huge tree-planting schemes in a bid to prevent deforestation-related environmental disasters. Even in tropical countries, where most deforestation takes place, Brazil is not alone in becoming more reluctant to chop down trees.

The progress made in recent years shows that mankind is not doomed to strip the planet of its forest cover. But the transition from tree-chopper to tree-hugger is not happening fast enough. Over the past decade, according to UN figures, around 13m hectares of forestland—an area the size of England—was converted each year to other uses, mostly agriculture. If the world is to keep the protective covering that helps it breathe, waters its crops, keeps it cool and nurtures its biodiversity, it is going to have to move fast (see our special report this week).

A bad old habit

For at least 10,000 years, since the ice last retreated and forests took back the earth, people have destroyed them. In medieval Europe an exploding population and hard-working monks put paid to perhaps half its temperate oak and beech woods—mostly, as is usually the case, to clear space for crops. Some 100m hectares of America's forests went in the 19th century, in an arboreal slaughter similarly reinforced by a belief in the godliness of thus "improving" the land. That spirit survives. It is no coincidence that George Bush junior, one of America's more god-fearing presidents, relaxed by clearing brush.

In most rich countries the pressure on forests has eased; but in many tropical ones—home to around half the remaining forest, including the planet's green rainforest girdle—the demand for

land is increasing as populations rise. In Congo, which has more rainforest than any country except Brazil, the clearance is mostly driven by smallholders, whose number is about to double. Rising global demand for food and biofuels adds even more to the heat. So will climate change. That may already be happening in Canada, where recent warm winters have unleashed a plague of bark beetles, and in Australia, whose forests have been devastated by drought and forest fires.

Clearing forests may enrich those who are doing it, but over the long run it impoverishes the planet as a whole. Rainforests are an important prop to continental water-cycles. Losing the Amazon rainforest could reduce rainfall across the Americas, with potentially dire consequences for farmers as far away as Texas. By regulating run-off, trees help guarantee water-supplies and prevent natural disasters, like landslides and floods. Losing the rainforest would mean losing millions of species; forests contain 80% of terrestrial biodiversity. And for those concerned about the probable effects of climate change, forests contain twice as much carbon as the atmosphere, in plant-matter and the soils they cover, and when they are razed and their soils disturbed most is emitted. If the Amazon went up in smoke—a scenario which a bit more clearance and a bit more warming makes conceivable—it would spew out more than a decade's worth of fossil-fuel emissions.

REDDy, steady, grow

Economic development both causes deforestation and slows it. In the early stages of development people destroy forests for a meagre living. Globalisation is speeding up the process by boosting the demand for agricultural goods produced in tropical countries. At the same time, as people in emerging countries become more prosperous, they start thinking about issues beyond their family's welfare; their governments begin to pass and slowly enforce laws to conserve the environment. Trade can also allow the greener concerns of rich-world consumers to influence developing-world producers.

The transition from clearing to protecting, however, is occurring too slowly. The main international effort to speed it up is an idea known as REDD (Reducing Emissions from Deforestation and Forest Degradation), which pays people in developing countries to leave trees standing. This is not an outlandish concept. It is increasingly common for governments and companies to pay for forest and other ecosystem services. To protect its watershed, New York pays farmers in the Catskills not to develop their land. REDD schemes aspire to do this on a much larger scale. The only notable success of the Copenhagen climate-change conference last year was a commitment to pursue them. Half a dozen rich countries, including Norway, America and Britain, have promised $4.5 billion for starters.

The difficulties are immense. REDD projects will be effective only in places where the government sort-of works, and the tropical countries with the most important forests include some of the world's worst-run places. Even in countries with functioning states, some of the money is bound to be stolen. Yet with sufficient attention to monitoring, verification and, crucially, making sure the cash goes to the people who can actually protect the forest, REDD could work. That will cost much more than has so far been pledged. The most obvious source of extra cash is the carbon market, or preferably a carbon tax. Since saving forests is often the cheapest way to tackle carbon emissions, funding it this way makes sense.

With global climate-change negotiations foundering, the prospects of raising cash for REDD that way look poor. But the money must be found from somewhere. Without a serious effort to solve this problem, the risk from climate change will be vastly increased and the planet will lose one of its most valuable, and most beautiful, assets. That would be a tragedy.

Leaders

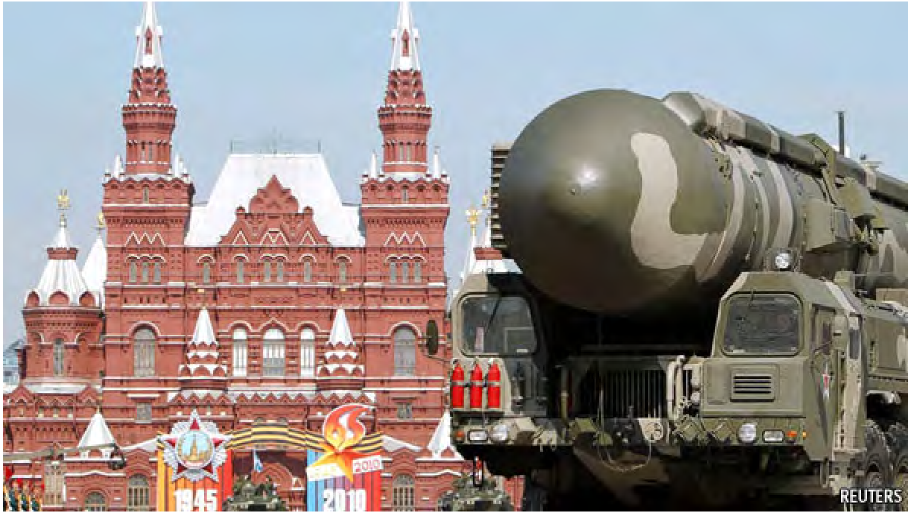
The Economist

Nuclear weapons

Just do it

The case for early ratification of the New START treaty

Sep 23rd 2010



FEW people were excited by the New Strategic Arms Reduction Treaty (START) that was signed by America's Barack Obama and Russia's Dmitry Medvedev in Prague in April. It is a sensible, incremental treaty that will cut America's and Russia's deployed strategic nuclear warheads by about a third, from the current maximum of 2,200 to 1,550, and the number of deployed missiles and bombers to 700 apiece. Compared with Mr Obama's rhetoric about seeking "the peace and security of a world without nuclear weapons" and agonising over how to stop a nuclear Iran, New START looks, well, a bit dull. Yet failure to ratify it would be a serious setback.

That, sadly, is a possibility. The treaty needs to win the support of two-thirds of the Senate, so at least eight Republicans must vote for it. Given its support from the Foreign Relations Committee (on a 14-4 vote), a chorus of generals and senior Republicans from previous administrations, you might expect it to pass easily. The only big names to have spoken against it are John Bolton, an ultra-hawkish former UN ambassador, and Mitt Romney, a flip-flopping presidential candidate now desperately courting the right. But the tea-partiers seem to have got it into their heads that the treaty is a bad one, and Republicans are stalling. Time is running out before the mid-term elections on November 2nd. (The "lame duck" session before the end of the year might well not vote on such an important matter, and the Republicans in the next Senate will probably be even less inclined towards bipartisanship.)

The case against New START is a mixture of political opportunism, ignorance and perfectionism. Shamefully, some Republicans, disregarding the convention that you should not play politics with nuclear missiles, just can't face giving Mr Obama a "win" before the mid-terms. They have also done too little to correct the myths on the right about New START. It does not "betray" eastern Europe: most leaders there would rather Russia had fewer weapons. It does not stop America deploying anti-ballistic missile defences, developing strategic-range non-nuclear weapons systems or updating its nuclear weapons infrastructure (indeed, Mr Obama has promised to spend $80 billion on this over the next decade).

What's not to like?

It is true that New START does not include Russia's huge stockpile of ageing tactical nuclear

weapons. It was never intended to. But New START does explicitly open the door to further arms cuts, including those 2,000-3,000 warheads, which represent both a big proliferation risk and a tempting target for terrorists. The new treaty's ratification could also embolden Mr Obama to revive the long-stalled Comprehensive Test-Ban Treaty, which would do more than anything to show that America was holding up its end of the fraying nuclear non-proliferation regime. And New START is a powerful symbol of the "reset" of relations with Russia, not least to boost America's hopes of getting a helping hand in dealing with Iran.

And there is a more pressing reason. The inspection and verification regime of the old START was suspended when that treaty expired last December. On-site inspection of Russia's nuclear facilities, which has been at the heart of all big arms-control agreements for over 20 years, is critical not just to ensure compliance but to gain knowledge of Russia's forces, operating procedures and even, to some extent, intentions. The longer it takes to ratify the new treaty and resume boots-on-the-ground inspections, the more that knowledge erodes, increasing mistrust and the risk of misunderstandings.

Momentum is vital; delay potentially lethal. The Senate should approve New START now.

Leaders

The Economist

The North Korean succession

Thanks Dad

Kim Jong Il may be preparing to hand his luckless country over to his luckless son

Sep 23rd 2010

NORTH KOREANS are by and large hungry, oppressed, cloistered and treated as infants. But they have one powerful stimulant to keep them going: the outsized cult of hero worship surrounding their pot-bellied ruler, Kim Jong Il.

That is why outsiders will strain next week for a glimpse into the hermit fief to see if Mr Kim uses the Korean Workers' Party's first gathering in 30 years to designate his third son, Kim Jong Un, as his heir. Whatever he does, the issue of succession is likely to escape the secrecy in which it has been wrapped for decades. For all the peephole excitement of watching a real-life "Dynasty" in one of the world's darkest places, the transition could produce some dangerous moments—and not just on the peninsula, but also for China, North Korea's sole remaining protector.

The older Kim, who has been in power since 1994, may be frail, but it is not clear that he is yet ready to anoint his twenty-something, basketball-loving boy, even though he has been called a chip off the old block. Unlike the father, who was groomed as dictator-in-waiting for over a decade, his third son's existence is still officially unacknowledged. Reportedly there is a trite song, called "Footsteps", in his honour, and a glowing published tribute to his "excellence both in the arts of pen and sword". But his qualifications for running a derelict country with a nuclear arsenal and one of the world's five biggest armies are seriously in doubt.

It is thus possible that the conference may pass with barely a word about succession. Yet even in a country as batty as North Korea, it would be odd to throw a lavish get-together of the main party hacks for no reason. Even if it is a charade of a ballot, it is probably sensible to assume that the stated purpose of "electing" (read rubber stamping) a "supreme leadership body" is important, and that some sort of profound, if hesitant, handover of power is under way (see article).

Playing the China card

If this is true, North Korea's neighbours should brace themselves for a rough ride. The omens for a seamless transition are not good. Since last year the regime has imposed, then swiftly abandoned, draconian currency reforms. The torpedoing of a South Korean naval vessel in March,

which the Seoul government blamed on the Pyongyang regime, caused an international outcry that led to further efforts to isolate it economically. Earlier this month the party conference was mysteriously postponed for a few weeks. Behind these events some detect a power struggle between or within the party and the army that has been going on ever since Kim senior suffered a suspected stroke in 2008. If this ever turned into open hostilities, the consequences could be devastating—which is why, however much outside powers want regime change in North Korea, they are right to fear civil war still more.

A collapse in North Korea could leave South Korea and China, its immediate neighbours, facing a refugee crisis. The entire region's economic boom could be thrown off course. There is even a risk that China and America would find themselves supporting opposing sides in a conflict that could involve nuclear weapons. Against that risk, the appointment of a clueless dauphin as the next leader might not be so bad, if his membership of the Kim clan enabled him to hold the country together. He may anyway be put under the stewardship of his powerful uncle, Chang Sung Taek, to ensure continuity. But if such a transition is to do anything for the region's long-term health, the outside world needs to rethink its approach.

Awkwardly for the West, China has the greatest leverage, thanks to its unseemly haste to invest in North Korea's mines and ports. But China seldom uses it. On the older Kim's two train trips to China this year, it pointedly refused to criticise the regime over the sinking of the South Korean ship. The Chinese put stability above all else, which gives Pyongyang an excuse to maintain the repressive status quo. That could prove dangerously short-sighted if the inflexible regime ever snaps.

Other countries, including South Korea, America, Russia and Japan, must also prepare for the worst. But they might also consider the possibility that a young Kim would be more open to reform. They could again promise cash in exchange for meaningful nuclear disarmament, and make every effort to engage him. It would be based only on a tiny hope, because it would take a miracle for the son to step out of the father's shadow. But if he does not, North Korea is ultimately doomed. And the grandson of the Great Leader and son of the Dear Leader would deserve nothing but a woeful sobriquet: Dear God.

Leaders

The Economist

Barack Obama and business

The wages of negligence

The president has gained a reputation for being hostile to business. He needs to change it

Sep 23rd 2010

WINSTON CHURCHILL once moaned about the long, dishonourable tradition in politics that sees commerce as a cow to be milked or a dangerous tiger to be shot. Businesses are the generators of the wealth on which incomes, taxation and all else depends; "the strong horse that pulls the whole cart", as Churchill put it. No sane leader of a country would want businesspeople to think that he was against them, especially at a time when confidence is essential for the recovery.

From this perspective, Barack Obama already has a lot to answer for. A president who does so little to counter the idea that he dislikes business is, self-evidently, a worryingly negligent chief executive. No matter that other Western politicians have publicly played with populism more dangerously, from France's "laissez-faire is dead" president, Nicolas Sarkozy, to Britain's "capitalism kills competition" business secretary, Vince Cable (see article); no matter that talk on the American right about Mr Obama being a socialist is rot; no matter that Wall Street's woes are largely of its own making. The evidence that American business thinks the president does not understand Main Street is mounting (see article).

A Bloomberg survey this week found that three-quarters of American investors believe he is against business. The bedrock of the tea-party movement is angry small-business owners. *The Economist* has lost count of the number of prominent chief executives, many of them Democrats, who complain privately that the president does not understand their trade—that he treats them merely as adornments at photocalls and uses teleprompters to talk to them; that he shows scant interest in their views on which tax cuts would persuade them to hire people; that his team is woefully short of anyone who has had to meet a payroll (there are fewer businesspeople in this White House than in any recent administration); and that regulatory uncertainty is hampering their willingness to invest.

Ignorant but not antagonistic

That Mr Obama has let it reach this stage is a worry. But negligence is not the same as opposition. True, he has some rhetorical form as an anti-business figure—unlike the previous Democrat in the White House, Bill Clinton, who could comfortably talk the talk of business. Mr

Obama's life story, as depicted in his autobiography and on the campaign, was one of a man once mired in the sinful private sector (at a company subsequently bought by *The Economist*), who redeemed himself only by becoming a community organiser; his wife had a similar trajectory. There are the endless digs at Wall Street and Big Pharma, not to mention the beating up of BP. He remains a supporter of "card check", which would dispense with the need for secret ballots in establishing a trade union. His legislative agenda has centred on helping poorer individuals (the health-care bill, part of the stimulus bill) or reining in banks (the financial-reform bill). The only businesses he has rescued are the huge union-dominated General Motors and Chrysler.

Against this, it could have been much worse, especially given the opprobrium that now dogs Wall Street. A president who truly wanted to wage war on business would have hung onto GM, not rushed to return it to the private sector. Card check has not been pushed. The finance bill, though bureaucratic, is not a Wall Street killer. With the exception of a China-bashing tyre tariff and a retreat on Mexican trucks, Mr Obama has eschewed protectionism. A lot of government cash has flowed to businesses, not least through the stimulus package. And above all his policies have helped pull the economy out of recession.

So what should he do? The same leftist advisers who have led Mr Obama into his "anti-business" hole are doubtless telling him that it is just a matter of public relations: have a few tycoons to stay in the Lincoln bedroom; celebrate Main Street's successes, rather than just whining about bonuses; perhaps invite a chief executive to replace Larry Summers, the academic who announced this week that he was standing down as the president's main economic adviser. Well, maybe. But once again this is advice from people who have never run a business. The main thing that is hurting business is uncertainty.

Mr Obama was right to tackle big subjects like health care and Wall Street, but too often the details were left to others. Why, for instance, should a small American firm hire more people when it still does not know the regulations on health care, especially when going above 50 workers will make it liable to insurance premiums or fines? Fiscal policy is even more uncertain, thanks to Mr Obama's refusal to produce a credible plan to rein in the deficit. Why should any entrepreneur plough money into a new factory when he has no idea what taxes he will eventually be asked to pay? These are questions that business needs answering in a businesslike way—and so does America. Otherwise the horse will not pull the cart.

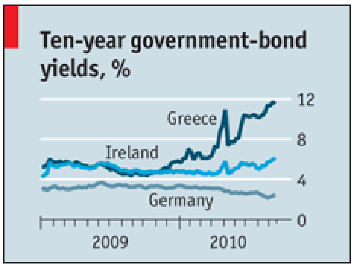
Leaders

Europe's single-currency woes

Euro follies

The European Union's plans to repair its single currency risk missing the main point

Sep 23rd 2010



AT LEAST the panic of the spring, when Greece was on the edge of default, has receded a bit. The most vulnerable euro-zone members, Greece and Ireland still pay more for their money, but austerity measures are in place. This week the huge euro-zone bail-out fund won a much-coveted AAA rating.

So this is a good time to repair the euro's rules (see article). Next week the European Commission will present some ideas that a task force under the European Council's president, Herman Van Rompuy, will discuss. Unfortunately, the likelihood is that they will take potshots at the wrong targets and ignore deeper problems.

Europe's single currency has by no means been a disaster. It has met its main goal of price stability. Had it not existed, the European Union would in the past two years have been convulsed by a more extreme version of the currency instability that rocked it in the early 1990s. The single market would have been under serious threat. In the currency markets the euro is less disliked than the dollar (see article). Yet it is clear from the troubles of Greece, Ireland and others that changes must be made if the euro is to survive in the long run.

Fervent federalists (and a few Eurosceptics) have rushed to claim that the euro's long-term survival requires a United States of Europe, with a big central budget. This is a pointless debate. The logic is dubious: plenty of previous examples of a shared currency, from the Latin Monetary Union to the currency union between Britain and Ireland, managed without a shared government. More important, a United States of Europe is not going to happen, because neither EU governments nor voters want it. So it is an excuse for European politicians to ignore the right answer, which is a mixture of three things: a dose of transparency, a bit more intrusion by outsiders—and a lot of liberalising reforms by national governments.

Greece is an advertisement for the first two changes. Its sudden revelation that its finances were in worse shape than it had previously admitted was proof that all euro-countries need properly independent statistical offices. It was also an argument for greater intrusion—especially by the International Monetary Fund (previously kept out of the euro zone), which can impose and monitor strict conditions for a bail-out.

The case for other forms of intrusion by Brussels is more problematic. There is talk of near-automatic sanctions on countries that break the euro's rules, such as cancelling offenders' voting rights, withholding EU funds or even suspending euro membership. But are these credible? The stability and growth pact was designed to limit budget deficits, but nobody believed its sanctions would be enforced. France and Germany flouted the pact, ignoring threats of swingeing fines. Even after the crisis, governments will not—and, being democratically elected, should not—become flunkies meekly accepting Brussels diktats. (Another intrusive idea, for euro-zone countries to guarantee a "safe" portion of each other's debts, runs into similar problems of efficacy and sovereignty.)

Let them default—and they probably won’t

Might the markets be the answer to keeping discipline in the euro zone? That investors have belatedly woken up to sovereign risk in the euro zone is to be welcomed. Pressure to trammel the markets (banning trading in credit-default swaps, setting up a more pliable European rating agency) should be dismissed as an attempt to shoot the messenger. But the markets may one day go back to sleep. One way to keep them awake would be to retain the possibility of sovereign default, and work out an orderly procedure for restructuring a euro member’s debts if they become insupportable—as may still happen for Greece or even Ireland. If a euro-zone member can default, the chances are good that investors will impose tougher discipline on any country with excessive debts.

An interactive guide to the EU's debt, jobs and growth worries

Yet neither the European Commission nor the markets can fix the euro’s deeper problem, which does not lie in fiscal profligacy. Ireland and Spain did not flout the fiscal rules in the boom years, yet both are in trouble now. The bigger failing is that several (mostly Mediterranean) members have suffered a huge loss of competitiveness against Germany and other northern countries. This shows up in yawning imbalances inside the zone. Too many governments believed that, once in the euro, they could worry less about competitiveness. Actually, they should have worried more, because they have lost for ever the let-out of devaluation.

This suggests three conclusions. First, the Mediterranean countries must carry through reforms to boost productivity and curb unit labour costs (Brussels can play its part by pushing to complete the single market in services). But second, it would be folly to put the burden of adjustment solely on them, for that would create a huge deflationary bias. Germany and other surplus countries must do more to sustain growth, if need be by borrowing more when, as now, demand is weak. Third, new countries must not be let into the euro, as Greece was, before they are sufficiently flexible to cope. If the commission and Mr Van Rompuy fail to press these points, they will be dancing around the heart of the matter.

Leaders

The Economist

Israel and Palestine

Keep on fudging

There are tentative reasons for hope, but an early compromise on settlements is vital to keep the talks going

Sep 23rd 2010

DIRECT talks between Israelis and Palestinians, which resumed this month after a wasteful hiatus of two years, are already at risk of stalling, even collapsing. On September 26th the Israeli government's partial freeze on building or expanding Jewish settlements in the West Bank, the main chunk of a would-be Palestinian state, is due to lapse. Israel's prime minister, Binyamin Netanyahu, will provoke outrage among his right-wing and religious coalition partners if he extends the moratorium. But the Palestinians have threatened to walk out if he does not. Plainly a compromise must be found.

Thankfully, it probably will be. Indeed, the mood is rather better than expected. Hideous obstacles still face the negotiators. But the chances of a durable peace have increased, at least a tad. The outlines of a deal—adjusting the border, sharing Jerusalem, resolving the question of Palestinian refugees and guaranteeing Israel's security—have been clear for years, harking back at least to the "parameters" laid out by President Bill Clinton in 2000. They were nearly agreed two years ago by a previous Israeli prime minister, Ehud Olmert, and his Palestinian interlocutor, Mahmoud Abbas, who is still Israel's main negotiating partner.

The key to preventing a premature bust-up is to deal with the border first. The president of Egypt, the Arabs' most populous country, has helpfully acknowledged that the pre-1967 line separating Israel from the Palestinian territories should be adjusted, so long as the Palestinians get land swaps of equal size and quality. This would let the bulk of the 300,000 Israeli settlers (excluding Jerusalem) remain within a new boundary, enabling them to expand in three or four of the biggest settlement blocks. Beyond these Mr Netanyahu must promise to maintain the freeze.

His coalition's hard wing may still howl. If it threatens to pull out of government, Mr Netanyahu should call its bluff. In any case, especially if he were able to bolster his coalition by bringing in Tzipi Livni and her more flexible Kadima party, he would do well to dump Avigdor Lieberman, the rough-edged foreign minister, whose far-right group still wants to "transfer" Arab-populated parts of Israel to a future Palestinian state.

Much, in any event, depends on the often slippery Mr Netanyahu. The Palestinians on the other side of the negotiating table have been pleasantly surprised by his change of tone, perhaps even

of heart. When he came to power over a year ago, his espousal of the idea of two sovereign states living side by side in peace sounded grudging, to put it mildly. His Likud party has yet to endorse it. But now he calls Mr Abbas a “partner in peace”—and seems sincere in seeking to achieve that long-elusive historic breakthrough. If this really is the case, it marks a promising advance. After all, a deal made by a rough right-winger is always more likely to stick than one struck by a squishier long-time peacenik.

The doubters still suspect Mr Netanyahu of making the right noises now only in order more plausibly to put the blame on the Palestinians if the talks fizzle out. Perhaps. His recently repeated demand that the Palestinians accept Israel as a specifically Jewish state raises the sceptics’ doubts. It is one thing for the Palestinians to recognise Israel, which Mr Abbas’s lot already does. It is quite another to have to concede that it must have a particular character, with the added implication—as the Palestinians see it—of making Arab Israelis second-class citizens and pre-empting the issue of Palestinian refugees.

For their part, the Palestinians must still, if they are to have a chance of making a deal stick, strive for unity. Hamas, the defiantly bloody-minded Islamist movement that won the Palestinian election in 2006, feels ambivalent about the talks (see article), though it officially still derides them. If negotiations between Mr Abbas and Mr Netanyahu gain momentum and a wider peace starts to look possible, diplomatic efforts to bring in Hamas and its Syrian sponsor must be renewed.

Obama to Jerusalem?

In all likelihood, the talks will splutter along, even if a compromise on settlements is not found immediately. Near the end of the year, Barack Obama’s persuasive powers should be called into play. The American president is to be commended for trying to unpick the Israel-Palestine knot soon after the start of his first term. He also did well in 2009 to address the Arabs in their biggest city, Cairo, persuading them of his good intent. Sooner rather than later he must go to Jerusalem, to reassure Israelis that giving the Palestinians a proper state is the only way to guarantee Israel’s own security.

Leaders

The Economist

Letters

On President Sarkozy, game conservation, Middle East peace talks, patents, Manmohan Singh, Damien Hirst, Zoroastrians, Rod Blagojevich

Sep 23rd 2010

Le petit président

SIR – Your examination of France under President Sarkozy ("The incredible shrinking président", September 11th) rightly highlighted the many challenges that face most countries in the post-Lehman world, associated with social and economic models and attendant structural deficits. Change and reform has to be on the agenda. Admirably, you also pointed to a number of reforms that have been introduced, many of which, such as the loosening of labour laws and reduced bureaucracy, have been achieved thanks to the loud voice of employers across France being heard.

But your worry that the reform agenda has ceased is misleading. Raising the minimum retirement age to 62 may seem absurdly obvious to those outside France, but within the country it is a totemic issue. Movement towards its achievement will increase momentum around a plethora of other changes necessary to free the country to be more competitive and foster economic growth. It is not a singular, governmental task. This momentum is one in which all players—unions, employers and government at all levels, not just the Elysée—must add to. At MEDEF, we can attest to the desire from all-sized companies across the country to engage in a dialogue where change and reform delivers true benefits to all our citizens. Reform must be a constant, living and evolving process.

Laurence Parisot
President
Mouvement des Entreprises de France (MEDEF)
Paris

SIR – Your cover of President Sarkozy will annihilate any hope you had of waking up the French debate. Any columnist or opponent of the president will use it to poke fun at him. They will take it as evidence that this presidency has lowered the standing of France abroad. Unfortunately, your cover does exactly that.

I already hear Martine Aubry, the first secretary of Parti Socialiste, saying, "This week, *The Economist*, not the most left-wing newspaper in the world, poked fun at Nicolas Sarkozy." Even if you class them as "palaeolithic", socialists will take advantage of the image you chose.

In the end, your message that France is not reformist enough will not be heard. You have weakened our country's ability to reform, you have increased the chances for the Parti Socialiste in the 2012 elections and you have increased the odds of success for Ms Aubry, who introduced the 35-hour working-week law. Is that really what you wanted?

Jean-Baptiste Reignier
Paris

African forests

SIR – Your briefing on game conservation in Africa ("Horns, claws and the bottom line",

September 4th) well described how private conservancies and local communities have broken the governmental monopoly of conservation. In southern African game areas and in the mountain gorilla parks of Rwanda and Uganda, tourism now covers management and opportunity costs. Unfortunately, the vast forests and wooded savannahs of west and central Africa, which harbour much of the continent's biodiversity, are less popular with tourists. Who should pay for their conservation?

International non-governmental conservation organisations have for years provided a lifeline to protected areas in west-central Africa. However, the $40m they annually provide only covers 10% of the region's protected areas' management costs. Many African parks are losing their wildlife. Paying for ecosystem services, in particular Reducing Emissions from Deforestation and Forest Degradation, has been widely lauded in the media, including by you, as a mechanism that could fund (forest) conservation more sustainably. Although much needed, bringing in funds in this way would reinstall the monopoly of conservation by governments, several of which have poor track records. Are we seeing the forest through the trees?

Paul Scholte
Principal
Kitabi College of Conservation and Environmental Management
Kigali, Rwanda

Israel and Palestine

* SIR – In your article about Middle East peace talks ("Back to the table", September 4th), you were mistaken about the old "Clinton Parameters", which you say Ehud Barak, the then Israeli prime minister, accepted and the then Palestinian leader, Yasser Arafat, rejected. First, even Mr Barak had many reservations. Second, the "generous" terms of the Clinton Parameters included, among other things, Israeli control of the borders, vast Israeli security zones on Palestinian land, and Israeli-only roads, where Palestinians would not be allowed. Palestinian controlled territory would be split between separate, non-contiguous enclaves. Arafat was right to reject this offer. Its terms are, hopefully, nowhere near "accepted by most foreign countries", as you state.

Henrik Carlborg
Solna, Sweden

Patently obvious

SIR – Please do not perpetuate the myth that "without patents…inventors would have little incentive to invent" ("Patent lather", September 4th). Patents, particularly in software, serve nobody except large companies who have already crowded the space of ideas and want to block entry, and small companies whose business strategy is akin to buying a lottery ticket: it might pay off if you are lucky and can sue someone in the future, but it is very likely to be a waste of money. That there should now be firms collating patents and offering defensive portfolios to companies for a fee should strike anyone as being a perverse excess caused by an anachronism, not as innovative.

Christian Nentwich
Director
Model Two Zero Ltd
London

A prescription for India

SIR – Your article ("Much less than promised", September 4th) sums-up how many average Indians, like me, feel about the present Indian government. Manmohan Singh may be the most

honest prime minister India has ever had—loaded with turbans of values, beards and whiskers of integrity and other impeccable credentials—but having such sterling qualities is meaningless if he is unable to galvanise a billion people into action with a clear vision and understandable goals.

Mr Singh has no leadership qualities and lacks the ability to consistently put his shoulder to the wheel. He is mostly invisible, talks once or twice a year and fails to engage the people of India. Mahatma Gandhi was a perfect example of being with the people; he stripped down (literally) to their level. On the contrary Mr Singh is busy booking a seat next to Barack Obama at the next world meeting. India badly needs a strong, dynamic leader to integrate its people and sell them an achievable vision.

Kumar Govindan
Gurgaon, India

Personal touches

SIR – At least Damien Hirst is refreshingly honest in his admission that he sells his art with "the goal to make the primary market more expensive" ("Hands up for Hirst", September 11th). If only a few of Wall Street's IPO salesmen had been equally so, a crisis may well have been averted.

Seriously though, Mr Hirst may be providing a very important lesson about the enormous intangible value of works of art which may arise from interaction with the celebrity artist himself. Those buying a dead half-cow or a large box of pills might indeed be prepared to pay a substantial premium for the honour of a handshake, a smile or a nod of thanks by the artist in return for extra cash. This direct connection with the artist is obviously lost in the secondary market.

Patrick McGavock
London

The eagle has landed

SIR – Zoroastrians surely have the greenest method for disposing of the dead ("Exit strategies", September 18th)—leaving corpses in an open-air *dakhma* or Tower of Silence. It avoids the complicated and ecologically dubious procedures you cite while helping feed rare birds of prey.

Lev Osherovich
San Francisco

Raised eyebrows

* SIR – In your article on Rod Blagojevich's trial ("The never-ending swansong", August 21st) you referred to Joan Rivers saying, "If she could have raised her eyebrows, she would have". You then said that Mr Blagojevich's lawyer's courtroom style "resembled that of an apoplectic cabbie trained by Maria Callas". I had to let you know that you need to give this particular writer many more opportunities to contribute.

Bob Eads
Port Angeles, Washington

The Economist

The Millennium Development Goals

Global targets, local ingenuity

In ten years, the living conditions of the poor have been improving—but not necessarily because of the UN’s goals

Sep 23rd 2010

EVEN at 70, Jiyem, an Indonesian grandmother, gets up in the small hours to cook and collect firewood for her impoverished household. Her three-year-old grandson is malnourished. Nobody in her family has ever finished primary school. Her ramshackle house lacks electricity; the toilet is a hole in the ground; the family drinks dirty water. Asked about her notion of well-being by researchers from Oxford University, Jiyem said, “I cannot picture what well-being means.”

The sort of deprivation Jiyem describes remains widespread. The United Nations reckons that in 2008 over a quarter of children in the developing world were underweight, a sixth of people lacked access to safe drinking water, and just under half used insanitary toilets or none at all. But while these figures are disquieting, a smaller fraction of people were affected than was the case two decades ago. So such data also indicate the world’s progress towards meeting the Millennium Development Goals (MDGs), a set of targets adopted by world leaders at the UN ten years ago.

Moving the right way 2

Progress on Millennium Development Goals in developing countries

	1990	2008	2015 target
Population living on less than $1.25 a day, % of total	46	27*	23
Undernourished population, % of total	20†	16‡	10
Deaths of children under five as % of live births	10	7.2	3.3
Primary-school enrolment, % of all primary-school-age children	82§	89**	100
Pregnant women attended at least once by skilled medical personnel, % of all pregnant women	64	80	100
Population with access to an improved water source, % of total	71	84	85.5

Source: UN *2005 †1990-92 ‡2005-07 §1998 **2007-08

The leaders gave themselves 15 years to reach the goalposts set in 2000. Two-thirds of that time is up. This week they returned to the UN for another meeting. Few, if any, of them have close experience of poverty. So the MDG exercise has at least made them spend three days discussing matters they might prefer to ignore. It has also helped to shift the debate away from how much is being spent on development towards how much is being achieved.

But few go as far as Ban Ki-Moon, the UN secretary-general, who recently called the goals “a milestone in international co-operation” that had helped “hundreds of millions of people around the world.” Talking up the MDGs is, of course, part of Mr Ban’s job. And

there has indeed been progress on many fronts (see table 2). But it is hard to assign much credit to the exercise itself.

Millennium Development Goals 1

Selected targets to be met by 2015

- Halve the proportion of people living on less than $1.25 a day (at purchasing-power parity)
- Ensure all children complete primary school
- Educate boys and girls equally
- Reduce the mortality rate among children under five by two-thirds
- Reduce the maternal mortality rate by three-quarters
- Halt and begin to reverse the spread of HIV/AIDS, malaria and other major diseases
- Halve the proportion of people without access to safe water and sanitation
- Increase aid and improve governance

Source: UN

Take the goal of halving the poverty rate from its 1990 level by 2015. The World Bank reckons that in 1990 46% of the developing world's population fell below the internationally accepted poverty line of $1.25 a day at purchasing-power parity. By 2005 the rate had fallen to 27% and, despite a slowdown in progress in the past couple of years, it is now probably lower still. A global halving by 2015 seems well within reach. Yet this "victory" is mainly due to a drop in China's poverty rate from 60% in 1990 to 16% in 2005. Because China and India accounted for over 62% of the planet's poor in 1990, changes to the world's poverty rate depend heavily on their performance. A global goal is therefore a poor way to give the governments of smaller countries an incentive to tackle poverty.

Alison Evans of Britain's Overseas Development Institute (ODI) reckons that the MDGs have come to be seen as applying to each developing country. But it is hard to track performance at country level: 28 of the poorest countries have recorded poverty rates for only one year between 1990 and 2008, according to a tally by researchers at the Centre for Global Development, a think-tank in Washington, DC. This makes any judgments about their progress mere guesswork. (This caveat does not apply with equal force to the global target, because China and India have enough data to make their progress measurable.)

The ODI reckons that 15 poor countries have already met the goal of halving the poverty rate. And perennial pessimists about Africa's prospects may be surprised to know that the list of the top ten countries ranked by the average annual decline in the poverty rate includes six in Africa: the Gambia, Mali, Senegal, Ethiopia, the Central African Republic and Guinea.

But lack of data aside, there is something odd about setting uniform targets such as "cutting child mortality by two-thirds", which means that some countries must do much more to avoid being classed as failures than others. Niger is a case in point. Between 1990 and 2007 it cut the number of children per 1,000 who died before their fifth birthday from 304 to 176. This was the biggest absolute reduction of any country in the world. But Niger is still judged "off-track" to meet its target, because continuing at the current rate will still result in a reduction of slightly below two-thirds. Its government may well find the MDG exercise mildly discouraging.

Money's limits

The goal-setting exercise has further pitfalls. Too often, the goals are reduced to working out how much money is needed to meet a particular target and then berating governments for not spending enough. Yet the countries that have made most progress in cutting poverty have largely done so not by spending public money, but by encouraging faster economic growth. China is the most obvious example. The best performers in Africa, too, are those that have managed to speed up growth. As Shanta Devarajan, the World Bank's chief economist for Africa, points out, growth does not just make more money available for social spending. It also increases the demand for such things as schooling, and thus helps meet other development goals. Yet the goals, as drawn up, made no mention of economic growth.

Of course, as India's dismal record on child malnutrition demonstrates (see article), growth by itself does not solve all the problems of the poor. It is also clear that while money helps, how it is spent and what it is spent on are enormously important. For instance, campaigners often ask for more to be spent on primary education. But throughout the developing world teachers on the public payroll are often absent from school. Teacher-absenteeism rates are around 20% in rural Kenya, 27% in Uganda and 14% in Ecuador. In Rajasthan in northern India, nurses who were

supposed to be staffing primary health clinics were found to be at work only 12% of the time over an 18-month period.

In any case, money that is allocated for such services rarely reaches its intended recipients. A study found that 70% of the money allocated for drugs and supplies by the Ugandan government in 2000 was lost to “leakage”; in Ghana, 80% was siphoned off. Montek Ahluwalia, of India’s Planning Commission, said last year that he reckoned only 16% of the resources earmarked for the poor under the country’s subsidised food distribution scheme ever reached them. Money needs to be spent, therefore, not merely on building more schools or hiring more teachers, but on getting them to do what they are paid for, and preventing resources from disappearing somewhere between the central government and their supposed destination.

The good news is that policy experiments carried out by governments, NGOs, academics and international institutions are slowly building up a body of evidence about methods that work. A large-scale evaluation in Andhra Pradesh in southern India has shown, for example, that performance pay for teachers is three times as effective at raising pupils’ test scores as the equivalent amount spent on school supplies. In Rajasthan, teachers were paid only on showing a date-stamped photograph to prove they had been in class on a given day. This led not just to a massive decline in absenteeism, but also to better pupil performance.

And in Uganda the government, appalled that money meant for schools was not reaching them, took to publicising how much was being allotted, using radio and newspapers. Leakage was dramatically reduced. The World Bank hopes to bring such innovations to the notice of other governments during the summit, if it can. For if the drive against poverty is to succeed, it will owe more to such ideas and their wider use than to targets set at UN-sponsored summits.

The Economist

Child malnutrition in India

Putting the smallest first

Why India makes a poor fist of feeding the young, and how it could do better

Sep 23rd 2010 | GOTHEKAR PADA

Proper food is needed too

VISHAL, the son of a farm labourer in the west Indian state of Maharashtra, is almost four. He should weigh around 16kg (35lb). But scooping him up from the floor costs his nursery teacher, a frail woman in a faded sari, little effort. She slips Vishal's scrawny legs through two holes cut in the corners of a cloth sack, which she hooks to a weighing scale. The needle stops at just over 10kg—what a healthily plump one-year-old should weigh.

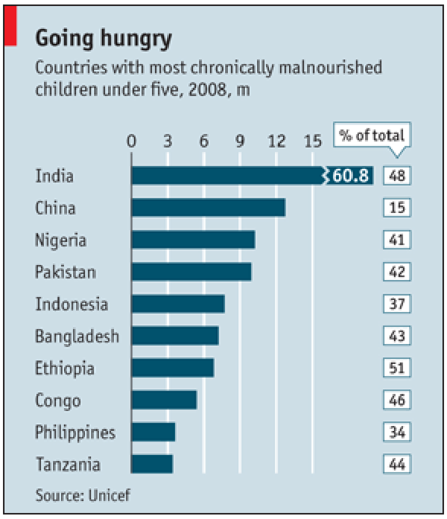
The teacher nods and puts Vishal back on the floor, where he sits listlessly before a jigsaw puzzle. That his teacher does not look perturbed is unsurprising. Nearly half of India's small children are malnourished: one of the highest rates of underweight children in the world, higher than most countries in sub-Saharan Africa. More than one-third of the world's 150m malnourished under-fives live in India.

That makes the sight of small, skinny children depressingly routine. Vishal's rural village is not especially impoverished; 120km (75 miles) from Mumbai, India's financial centre, it offers factory-work as well as the farm labour most country people do. But the battered register in Vishal's nursery, a government-run centre known as an *anganwadi* (literally, courtyard), shows that close to half the children are malnourished, a handful chronically so. "It's always been this way," says Sunanda, the *anganwadi* teacher, who has weighed the children in her care every month for 25 years. "Nothing has changed."

Almost as shocking as the prevalence of malnutrition in India is the country's failure to reduce it much, despite rapid growth. Since 1991 GDP has more than doubled, while malnutrition has decreased by only a few percentage points. Meanwhile, the chasm between lucky and unlucky Indian children is growing: under fives in rural areas are more likely to be underweight than urban children, low-caste children than higher-caste children, girls rather than boys. And the disparities are growing. India seems certain to miss one of its key Millennium Development Goals: halving malnutrition by 2015.

Malnutrition places a heavy burden on India. It is linked to half of all child deaths and nearly a quarter of cases of disease. Malnourished children tend not to reach their potential, physically or mentally, and they do worse at school than they otherwise would. This has a direct impact on

productivity: the World Bank reckons that in low-income Asian countries physical impairments caused by malnutrition knock 3% off GDP. Why, then, has India done so little to reduce it?



There are many reasons. Most fundamentally, poor parents find it hard to buy enough food; but that is by no means the only factor. Impoverished and rural families are also less likely to go to a doctor when their children fall sick, which they do a lot, thanks to dirty water and poor hygiene. Inadequate nutrition lowers the immune system, increasing the risk of infectious disease; illness, in turn, depletes a child's nutritional stocks. Tara, a two-year-old in Chandan, a village in the northern state of Rajasthan, has yet to bounce back from a bout of gastroenteritis that put her in hospital a year ago. Since then, any weight gain has been offset by frequent bouts of diarrhoea, says her mother, Maya Devi, as she holds her limp child on her lap. Tara weighs a pitiful seven kilos.

Cow's milk and water

Even the children of wealthier families suffer surprisingly high rates of malnutrition. Government data show that a third of children from the wealthiest fifth of India's population are malnourished. This is because poor feeding practices—foremost among them a failure exclusively to breastfeed in the first six months—play as big a role in India's malnutrition rates as food shortages. Here lies an opportunity: educating parents about how to feed their children should be more quickly achieved than ensuring that the 410m Indians who live below the UN's estimated poverty line of $1.25 a day have enough to eat.

The government, however, has largely failed in both areas. Two big, expensive schemes designed to reduce malnutrition—a public distribution system (PDS) that provides subsidised food to the poor and a vast midday-meal scheme, to which 120m schoolchildren are signed up—are hampered by inefficiency and corruption. But the government's main effort to tackle child malnutrition, the Integrated Childhood Development Service (ICDS), has failed for rather different reasons.

The ICDS, launched in 1975, is the world's biggest early-childhood scheme. It provides, in theory, an *anganwadi* centre with one teacher and an assistant for every 1,000 people. Each centre is responsible for providing nutritional care to pregnant women and all children up to six, the age at which Indian children start school. *Anganwadi* centres also provide daily pre-school child care and education, as well as keeping a dozen-odd registers recording everything from children's weights to financial accounts. Overburdened by this long list of responsibilities, *anganwadi* workers have tended to focus on the group they see every day: children over the age of two whose mothers take advantage of free child care and daily meals offered by the centres. While these meals—supposedly providing each child with an extra 500 calories a day—are certainly beneficial, they do not replace the nutritional guidance the parents of young children need. More seriously, this emphasis on older children means that the under-twos and pregnant women barely get a turn.

Unfortunately, this is precisely the group the government should be targeting. Most growth retardation occurs by the age of two and is irreversible. Often, it starts during pregnancy. More than half the women of childbearing age in India are anaemic—a condition that can be much improved by fortifying food—and 30% of Indian children are born underweight. In healthy infants, this could be corrected with six months of exclusive breastfeeding. But especially in rural India, where women often go back to the fields mere days after giving birth, babies' diets are often supplemented with cow's milk and water, which exposes them to infection.

That risk increases after six months, with the introduction of solid food. The quality and reach of

ICDS centres varies from state to state: the most impoverished states, with the highest rates of malnutrition, also have the lowest numbers of centres. But countrywide the scheme suffers from the usual ailments of public services in India. Recently the production of daily meals served at *anganwadi* centres was taken out of the hands of pilfering contractors and given to groups of local women. A complicated system of payments, however, means that even in a state like Maharashtra, which has done more than most to improve ICDS services, centres must wait four months for cash to buy pay food bills. The two meals served at Vishal's *anganwadi*—a plate of puffed rice dotted with a few nuts and a serving of sprouted *moong dal*—seem unlikely to give him 500 calories. Vandana Krishna, the state's secretary of Women and Child Development, says the funding gap could be solved by giving village *panchayats*, or local governments, a special fund to make loans to *anganwadis*. But this would need a lot of money.

So too would any significant improvement in the government's efforts to fight child malnutrition—with one exception. Fortifying the food handed out by the PDS would be an economical and effective way to lower rates of anaemia and increase nutrition. So far, India has resisted that idea. But most experts agree that the country will make a serious dent in child malnutrition only when it focuses on pregnant women and the very young, perhaps by providing an additional worker in each *anganwadi* centre to make home visits. "India has missed its big window of opportunity by not giving priority to mothers and the under-threes," says Victor Aguayo, chief of Unicef's nutrition programme in India. "It cannot afford to do so any longer."

Briefing

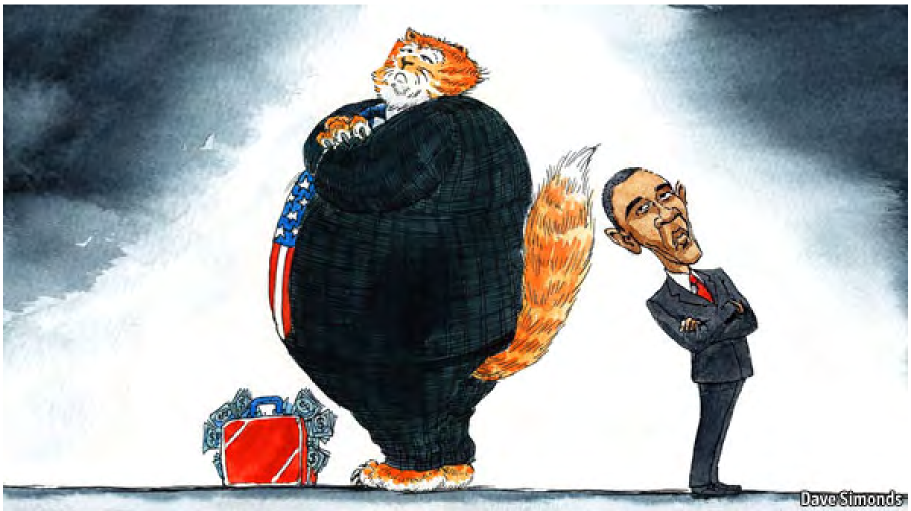
The Economist

Barack Obama and corporate America

No love lost

Corporate America's complaints about the president keep getting louder

Sep 23rd 2010 | NEW YORK



SPECULATION that Barack Obama will appoint a businessman to a senior job in his administration reached fever pitch this week, after the White House announced that Larry Summers, the president's principal economic adviser, will soon step down. It is hard to find an American boss nowadays with a good word to say about the current administration, and the absence of anyone with a business background in Mr Obama's inner circle is invariably mentioned as a reason why. The perception in corporate America that the president is actively anti-business, or at the very least doesn't "get it", has started to "have a psychological effect on how firms invest", notes one well-informed insider, who used to see this as a "seven out of ten problem" but now rates it as a ten.

Discontent that started as mostly private grumbling not long after Mr Obama entered the White House has recently gone public. Ivan Seidenberg, the chief executive of Verizon, a telecoms giant, used a recent speech in Washington, DC, to accuse the president of creating an "increasingly hostile environment for investment and job creation", claiming that the administration's regulatory expansion into "every sector of economic life" is making it "harder to raise capital and create new businesses." Jeff Immelt, the boss of GE, has said that the administration is not in sync with entrepreneurs. The US Chamber of Commerce, a business lobby, has complained that the Obama administration has "vilified industries".

And so it goes on. The Business Roundtable, another influential trade association, has published a 49-page list of current policies which, it claims, inhibit economic growth. Last month Dan Loeb, a hedge-fund manager who is famous for writing intemperate letters to company bosses, circulated a letter accusing Mr Obama of, in effect, undermining free-market capitalism and the rule of law. What stings most is that Mr Loeb is a former classmate of the president's and was a big donor to his election campaign.

Scary stuff. Yet does Mr Obama really have a case to answer? Certainly, some of the wilder allegations by some businesspeople should never have left the 19th hole. Mr Obama has consistently made it clear he favours a mixed capitalist economy. The big incursion of the state into finance took place on his Republican predecessor's watch. And although he doubtless went further than a McCain administration would have done to help GM and Chrysler survive, he has stuck to his pledge to return them quickly to private ownership. He used this year's state-of-the-

union message to commit himself to helping corporate America double its exports, and has appointed a council to propose ideas for promoting more innovation (though, says one member, “The administration is doing more talking than listening, and several of us are already worried we’ve been suckered into a PR exercise.”)

Moreover, the main reason so many American bosses are down in the dumps is the sluggish economy. Mr Obama inherited the recession from his predecessor, and the economy has recovered, somewhat, since then. Besides, it was corporate America, in the shape of the Wall Street banks, that was largely to blame for the depth of the recession. It might have helped Mr Obama’s relationship with business if he had gone on less about “shameful bonuses” on Wall Street; but some shame was surely in order.

Even a Republican administration would have been obliged to reform financial regulation, and, though there is a lot to quibble with in the Dodd-Frank act, the administration responded to requests from Wall Street to kill some of the more alarming reform proposals from Democrats in Congress. One way it did this was to punt the proposals on to regulators for their consideration—which is why business is now able to complain about its “uncertainty” over what the full impact of Dodd-Frank will be. Mr Obama might reply that uncertainty is preferable to the alternatives that were considered by Congress.

Uncertainty is a common charge from complaining businesspeople. According to one senior White House official, it is “shorthand for ‘We don’t like health-care reform, don’t like Dodd-Frank, don’t want our taxes to go up’.” On taxes, the administration points out that even allowing all the Bush tax cuts to expire would return tax rates only to what they were under Bill Clinton, which was hardly a terrible time for business. There is also a nasty, mostly inherited, fiscal problem which business leaders agree needs solving. It will require deep spending cuts, but may also necessitate somewhat higher taxes.

As for health-care reform, many business leaders favoured the idea, complaining that the current system is increasingly a drag on the competitiveness of corporate America. But the bosses do have a point; it is hard to imagine that a president who really understood the depth of America’s economic problems would have pushed ahead with such a huge, disruptive reform at that particular moment. And it is also true that many of the details of the bill remain to be worked out.

Uncertainty also hangs over energy prices, despite the apparent failure of cap-and-trade legislation. Many big firms, including electric utilities and others with long investment horizons, believe that a price on carbon is inevitable sooner or later, perhaps through regulation, since the Environmental Protection Agency is empowered to treat carbon dioxide as an air pollutant. They would prefer certainty to the current confusion.

So it would be tempting to conclude that Mr Obama’s business critics protest too much, especially as their failure to create jobs in America coincides with earning huge profits and sitting on record amounts of cash. Better to point the finger of blame at the White House, they might well think, lest it be pointed at them.

Except that, as a person with first-hand experience of Mr Obama’s decision-making points out, the “atmospherics really do matter”. The mere perception that the administration is anti-business is “starting to make the bosses of Fortune 500 companies more risk-averse,” says a billionaire who used to run one of America’s leading internet firms.

Another valid criticism is the absence of any former business executive in the cabinet, meaning that there is no “go to” person for corporate America. “Surely he could have given us commerce secretary. Who has even heard of the current guy?”, wails one veteran boss. (The current commerce secretary, by the way, is Gary Locke, a professional Democratic politician and former governor.) For all their attempts to reach out to business, Rahm Emanuel, Mr Obama’s chief of staff, and Valerie Jarrett, a senior adviser charged with “public engagement”, haven’t cut the mustard (Mr Emanuel is almost certainly on the way out as well). After all, notes the veteran, just

like his boss they have “never had to make payroll”.

As for Mr Obama, when he meets businesspeople at fund-raisers and the like, he too often shakes hands and moves on, leaving them feeling he was more interested in a photo-op than a conversation. He caused offence and disbelief a while back by turning up for a meeting with a group of prominent chief executives and then reading to them from a teleprompter.

The absence of a former business executive in the White House has hurt Mr Obama in other ways, too, reckons the former official. For instance, there has been no one to cast an eye over speeches to root out words that might inflame business sensibilities. Nor anyone to point out that there might be economic costs to shutting down all offshore oil exploration in response to the gulf oil spill, or that railroading BP into stumping up $20 billion for clean-up efforts might strike many business leaders as playing fast and loose with the rule of law.

And there is something about having run a big firm that gives a cabinet member the ability and clout to speak truth to the president about the need to address a particular problem “right now”, says a former official. This would have been a particularly valuable counterweight to the influential but rather ivory-tower academics in the current White House.

Who might Mr Obama recruit from business to the cabinet? Jamie Dimon, the boss of JPMorgan Chase, would be an interesting choice as treasury secretary, but Wall Street is probably still too toxic a source of candidates for high office and, besides, Mr Dimon’s recent criticisms of the administration have done him no favours. More plausible, and certainly less controversial, choices in the rumour mill include Anne Mulcahy, the former boss of Xerox, Eric Schmidt of Google (who resisted Mr Obama’s earlier solicitations, but may now be asked again) and Roger Ferguson, a black former Federal Reserve governor who now runs TIAA-CREF, a big fund-management firm.

Recruiting the right corporate executive, or even two, might make the world of difference to commerce’s perceptions of the president, especially on the heels of some recent pro-business measures, including tax incentives for investment and research and development. It looks as though the time has come for Mr Obama to stop attacking the fat cats of business and try stroking them instead.

United States

The Economist

Larry Summers resigns

The brains trust dissolves

All the president's economic principals are leaving, bar the treasury secretary

Sep 23rd 2010 | WASHINGTON, DC

Back to the ivory tower

HISTORIANS may one day label the first two years of Barack Obama's presidency as the most activist in economic policy of post-war history. For that, credit both circumstance and the star-studded economic team Mr Obama assembled when he took office.

That team is now breaking up. On September 21st Larry Summers, the director of the National Economic Council and the president's chief economic policy co-ordinator, said he would return to Harvard after the mid-term elections. Christina Romer, chairman of the Council of Economic Advisers, recently returned to Berkeley. Peter Orszag, the budget director, kicked off the exodus, leaving on July 30th. Washington loves palace intrigue but the reasons for the departures are mainly mundane: they want to get on with their lives. Only Tim Geithner, the treasury secretary, looks set to stay on, a chirpy survivor.

Many will say good riddance. Voters think the stimulus plan didn't work. Businesses bemoan the overly academic cast of the team and the administration's interventionist tilt on everything from union-set pay requirements in stimulus spending to the drilling moratorium following BP's oil spill. Republicans have called for both Mr Summers and Mr Geithner to be sacked.

This misreads the nature of the economic team's contribution. They blended macroeconomic activism, such as on stimulus and bail-outs, with microeconomic conservatism. Mr Summers and Mr Geithner beat back calls to nationalise banks, and excised the most anti-banker elements from financial laws. Mr Orszag laboured to keep health-care reform from adding to the deficit, though he lost the battle on cost control. Internally Mr Summers and Ms Romer regularly argued against protectionism and industrial policy with some success. Their centrism made the team as unpopular on the left as on the right.

Mr Obama seems to want more of the same, though with less star power. Jack Lew, the proposed new budget director, is the quintessential technocrat. Austan Goolsbee is to the right of Ms Romer, whom he succeeded. Mr Obama reportedly wants a businessman to replace Mr Summers. Less star power might mean less ego and more harmony. But the new team might also have a tougher time prevailing inside the White House over less sensible people.

Still, the make-up of the team matters less than it did when Mr Obama took office. The activism of the last two years is likely to give way to paralysis in the next two. This will distress those who think an unemployment rate nudging 10% calls for more action. It will also gnaw at Mr Summers, who leaves his job of repairing the economy unfinished.

United States

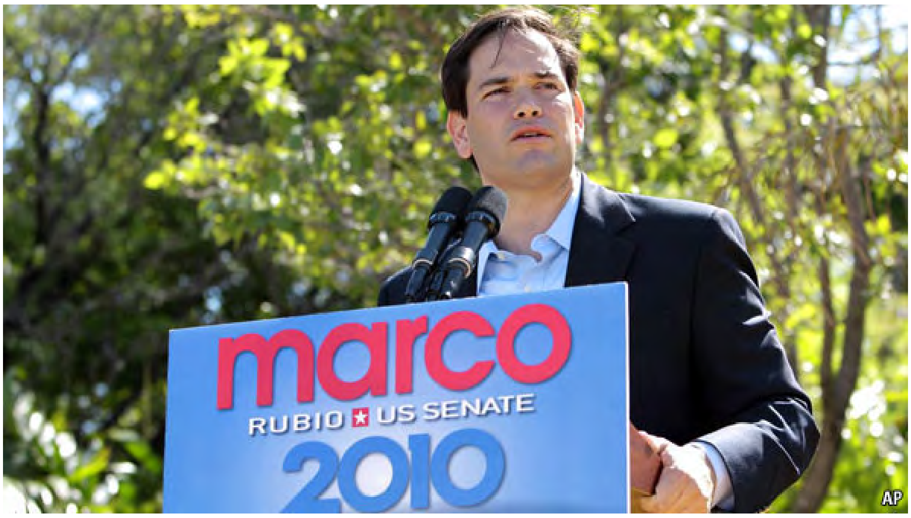
The Economist

The Florida Senate race

Is Rubio stoppable?

The governor and the Democratic nominee flounder in his wake

Sep 23rd 2010 | MIAMI



The power of tea

ACCORDING to one of Marco Rubio's stock gags on the stump in Florida, when he started his campaign for senator, the only people who fancied his chances lived in his house—and four of them were under the age of ten. If the polls are to be believed, however, his following has expanded somewhat. First he built such a commanding lead in the Republican primary over Charlie Crist, Florida's governor, that Mr Crist dropped out to run as an independent. Now Mr Rubio has become the overall favourite, ahead both of Mr Crist and of Kendrick Meek, the Democratic nominee. As in several other states, a little-known candidate backed by "tea-party" activists has divided Republicans by toppling the presumptive nominee—but in the case of Florida, at least, that does not seem to have dented the party's prospects.

On paper Florida has a bluish tinge, with some 4.6m registered Democrats to 4m Republicans. But many of those Democrats are of a conservative, southern bent. Barack Obama only barely carried the state; it plumped for George Bush (sort of) in the two previous presidential elections. Its state legislature has been in Republican hands for over a decade.

All this would have made the election an uphill struggle for Mr Meek in the best of years, let alone when weighed down by the weak economy and general disenchantment with the Democrats. His support for the stimulus and health-care reform goes down reasonably well in the Democratic strongholds of Miami and the other big cities in the south of the state. But in the more centrist region around Orlando and Tampa, those positions are suspect; in the northern third of the state, they are downright unpopular. He is in third place, with just over 20% of the vote.

Mr Rubio, a former speaker of Florida's House of Representatives, has developed a stirring pitch in keeping with the patriotic indignation of the tea-partiers: as the son of immigrants who fled the Cuban revolution, he considers himself living proof that America is a land of opportunity and is determined to keep it that way. He fears that the Democrats, if left unchecked, will turn the country into a sclerotic European-style social democracy. He wants to trim regulation, cut taxes and slash the deficit. In contrast, Messrs Meek and Crist, he says, are defenders of the status quo. Some talk of him as future presidential material.

Mr Crist, a breezy charmer with pearly teeth and a preternatural tan, remains popular as

governor. His staff maintain that his common-sense, moderate positions will attract support from Republicans, Democrats and independents alike. But many of those positions are uncomfortably new: he has softened his opposition to health-care reform since defecting from the Republican Party, and stiffened his opposition to offshore drilling. It does not help that many Republicans see him as a traitor: most of his support seems to come from independents and Democrats. Although he led the race for most of the summer, his support now seems to be dwindling.

Much could still change. Messrs Crist and Rubio accuse one another of charging personal items to the Republican Party. They also both contend that the other has been as reckless with public money as with his own. Mr Meek, for his part, says that he is gaining momentum and will eventually win over Florida's Democrats, putting himself properly into contention. The party's ticket, his staff add, will energise particular constituencies, what with a black candidate for senator, a woman for governor and a Jew for attorney-general.

Chris Mann of the University of Miami argues that support for independent candidates tends to fade as election day approaches and parties rally around their nominees. But Mr Crist's staff claim that his standing as governor will counter this effect. (He is not the only one to argue that the recognition incumbency brings trumps party loyalty: Lisa Murkowski, another Republican ousted by a tea-swilling insurgent in the primaries, has just decided to stand as a write-in candidate for senator in Alaska.) Both Mr Crist and Mr Meek insist that they are the ones who can defeat Mr Rubio. But it may turn out that neither of them can.

United States

Barack Obama and Afghanistan

Get me out of here

A new book shows a president desperate to find an exit

Sep 23rd 2010 | WASHINGTON, DC

ALTHOUGH he campaigned by arguing that Afghanistan was a necessary war and Iraq a "dumb" one, Barack Obama was by the autumn of 2009 calling inside the White House for "a plan about how we're going to hand it off and get out of Afghanistan". In October 2009 he told Hillary Clinton, his secretary of state: "I'm not doing ten years. I'm not doing long-term nation-building. I am not spending a trillion dollars." But although he was desperate for an exit strategy, he faced constant resistance from his generals.

To judge from a leak in the *New York Times* and extracts in the *Washington Post*, this is the thrust of "Obama's Wars", the latest scoop-packed book from Bob Woodward, the Watergate-era veteran from the *Post*, to be published on September 27th. Mr Woodward has a record of squeezing his high-level contacts for juicy and apparently accurate quotes from meetings. Among those in this 16th book he has Jim Jones, the national security adviser, disparaging Mr Obama's political team as "the Mafia" and "the Politburo" and General David Petraeus telling his own staffers that the president was "[expletive] with the wrong guy".

The main focus of the book is Mr Obama's review of Afghan strategy in the second half of 2009 and his conflict with General Petraeus (then head of central command) and Admiral Mike Mullen, chairman of the joint chiefs. The president is reported to have demanded an exit plan in return for the 30,000 extra troops he sent to Afghanistan, but not to have got one. In the end, says the *Post*, he "essentially designed his own strategy" for the 30,000 troops, itself a compromise between the 40,000 the generals wanted and the 20,000 proposed by Vice-President Joe Biden. He wrote a six-page "terms sheet" to restrict the mission from expanding and reduce "wiggle room".

Since then General Petraeus has taken command in Afghanistan. General Petraeus's belief in a counter-insurgency strategy of the kind he presided over in Iraq, and Mr Obama's fear of open-ended war in Afghanistan, are a recipe for further conflict in mid-2011, when a troop reduction is scheduled to begin. According to Mr Woodward, the president told his generals in 2009 that in 2010 he did not want to hear demands for more troops or for changing the mission, "unless we're talking about how to draw down faster than anticipated in 2011." From the beginning, it is reported, Mr Obama concluded that "I have two years with the public on this."

The White House granted Mr Woodward extensive access to officials and documents. You have to wonder why, since the book could well have nasty ramifications in Afghanistan and Pakistan as well as Washington, DC. American intelligence is said to have diagnosed the Afghan president, Hamid Karzai, as a manic-depressive, and Mr Woodward says the CIA runs a 3,000-man tribal army, called Counter-Terrorism Pursuit Teams, that operate inside Pakistan. Overall, the book may bolster the president's reputation as a tough bargainer determined to face down a gung-ho military. But it will complicate Mr Obama's relations with America's allies—as well as with his generals.

United States

The Economist

Predatory fish

The carp tsar's struggle

Bureaucrats attempt to fend off invading fish

Sep 23rd 2010 | CHICAGO

THE war against Asian carp hardly seems a fair fight. Since November 2009, when traces of the fish were found near Chicago, federal and state officials have used nets, electric shocks and poison to keep them out of the Great Lakes. This month the White House appointed a carp tsar to oversee the campaign. But government moves slowly. Fish do not.

Introduced in Arkansas in the 1970s, Asian carp have swum up the Mississippi River, eating and spawning ravenously. The silver carp, capable of spectacular leaping, batter fishermen. An annual Redneck Fishing Tournament now brings men to the Illinois River with baseball bats in hand, keen to get their revenge.

The past year has seen a torrent of measures to keep the Great Lakes free of them. The White House has allotted $79m for the fight. The new carp tsar should ensure better co-ordination. The Army Corps of Engineers (ACE) is building fences to contain fish during floods. A new electrical barrier—two already exist—will soon be finished.

But progress is undermined by government’s two favourite activities. First, bureaucrats love planning. The Army Corps thinks that strobe lights and a “bubble curtain” will deter carp. But any underwater disco must wait for funding and a demonstration project. Second, there is endless bickering. In June a carp was found just six miles (10km) from Lake Michigan. A fight ensued over whether the fish was planted there. In July five state attorneys-general sued the ACE and Chicago’s water district, demanding that they should temporarily close two locks connecting Lake Michigan to the Mississippi River basin. The fight has turned nasty, though both sides agree on one point: closing the locks would not necessarily keep carp out.

The only foolproof solution is to separate the Great Lakes from the Mississippi River, as was once the case—today’s worry is caused by a 110-year-old canal, vital for sewage disposal and transport. That would take decades. In June Midwestern senators proposed a bill to speed up a study of the issue. That bill is now stuck. In July a coalition of cities and states decided to conduct a separate study. The ACE has a draft of its “project management plan”—a draft of the plan for the study. Still the carp head north.

United States

The Economist

The Gulf of Mexico oil spill

After the kill

With BP's blown-out well finally dead, damage assessment takes centre stage

Sep 23rd 2010 | BATON ROUGE

The work goes on

IN A sun-dappled corner of Louisiana State University, two scientists are puzzling over shrimp (prawns). The state's fisheries department keeps extensive historical records of average shrimp weights—it uses the figures to set the opening date of the shrimping season—and the researchers reckon that if this year's shrimp turn out to be especially tiny, that might suggest that they had been exposed to oil after the explosion on a drilling rig in the Gulf of Mexico on April 20th, which created the worst oil spill in America's history. That might mean reduced fecundity, and a smaller shrimp population next year. And that might imply medium-term consequences for the Gulf's shrimp population. But it is, they add, too early to tell. "This whole story so far is a lot of ifs, and based on those ifs, other ifs," sighs one.

On September 19th, nearly five months after the spill started, BP, the company leasing the rig, finally sealed the Macondo well. An adjoining relief well had already been completed, and Macondo got a final wallop of cement. This is the *coup de grâce*. A temporary containment cap was placed over the wellhead in July, and a cement filling was installed in August.

Now more efforts will turn to assessing and compensating for the damage, which involves several things happening at once. The Natural Resource Damage Assessment process, overseen by the National Oceanic and Atmospheric Administration (NOAA), quantifies the damage and what it might cost to fix it. It figures out BP's bill, in other words. Alongside this, an army of federal and state agencies, government researchers, academic scientists and independent advocates works on pieces of the picture: whether sampled fish show traces of oil in their gall bladders, whether whales are avoiding their usual mating grounds, whether water samples contain more hydrocarbons than would occur from natural seepage. BP has also pledged to spend $50m a year for the next ten years on its own independent research effort, as well as supplying scientists for what the NOAA is doing.

Estimating the size of the spill was an essential first step. On August 2nd the National Incident Command (the government body set up to co-ordinate the response) estimated that the spill amounted to a total of 4.9m barrels of oil. NOAA added an account of where it all went: a quarter dissolved or evaporated by natural means; 17% was siphoned up from the wellhead; 8% was burned off or skimmed up; 16% was dispersed (broken down into tiny droplets) naturally; 8%

was dispersed through the prodigious application of chemicals. The remaining 26%, according to NOAA, is spread around: some shimmering on the surface as sheen, some washing up as tarballs, some buried in layers of sediment on the sea floor.

Non-government scientists worry that the spillage estimate is too small. And the dispersed oil has not exactly gone: it simply has a better chance of biodegrading, and less chance of coming ashore. This process is already well under way: the gulf is full of bacteria that happily chomp oil, if they get it in tiny specks. Earlier this month the Joint Analysis Group, another government outfit, reported that the levels of oxygen in the sea were about 20% below normal, though not low enough to endanger marine life. That suggests that the bacteria are indeed at work. Presented with a sudden food source, they are gobbling away, using lots of oxygen to digest it.

James Cowan, a Louisiana State oceanographer, is more critical of the use of chemical dispersants. The lighter bits of the dispersed oil may be eaten by bacteria, or will rise to the sea surface, to weather or evaporate. But he reckons that the heavy parts have simply sunk to the bottom. From there, they could still work their way into the food chain.

Dispersal was a strategic calculation. In the weeks after the spill, the paramount concern was to keep the oil away from Louisiana's fragile coastline, away from nesting turtles, away from Alabama's white-sand beaches and away from the cameras. Those were serious concerns. Some of the turtles are endangered. And Louisiana is already losing wetland: an area about the size of a football field every 30 minutes. The Mississippi River, which used to sweep up dirt in one stretch of the delta only to deposit it in another, has now been channelled, for flood-prevention, to wash the land into the sea. The oil that has reached the shore may exacerbate the problem of land loss by poisoning the marsh grasses that hold the delicate coastal sands and silts together.

It is quite likely, though, that the damage will be a lot less than was feared as the oil was gushing. No hurricanes came to push the slick inland, and most of the oil has been successfully kept offshore. So far there has been no discernible effect on fish stocks and almost all the fisheries have now reopened. But it is still early days. Any trouble that may lurk deep in the sea will remain obscure for some time yet.

United States

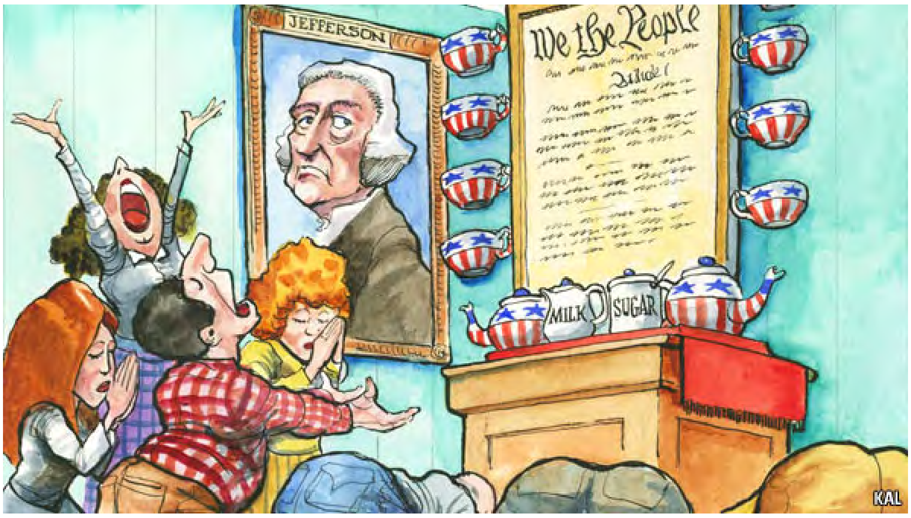
The Economist

Lexington

The perils of constitution-worship

One of the guiding principles of the tea-party movement is based on a myth

Sep 23rd 2010



WOULDN'T it be splendid if the solutions to America's problems could be written down in a slim book no bigger than a passport that you could slip into your breast pocket? That, more or less, is the big idea of the tea-party movement, the grassroots mutiny against big government that has mounted an internal takeover of the Republican Party and changed the face of American politics. Listen to Michele Bachmann, a congresswoman from Minnesota and tea-party heroine, as she addressed the conservative Value Voters' Summit in Washington, DC, last week:

> To those who would spread lies, and to those who would spread falsehoods and rumours about the tea-party movement, let me be very clear to them. If you are scared of the tea-party movement, you are afraid of Thomas Jefferson who penned our mission statement, and, by the way, you may have heard of it, it's called the Declaration of Independence. [Cheers, applause.] So what are these revolutionary ideas that make up and undergird the tea-party movement? Well, it's this: All men and all women are created equal. We are endowed by our creator—that's God, not government [applause]—with certain inalienable rights...

The Declaration of Independence and the constitution have been venerated for two centuries. But thanks to the tea-party movement they are enjoying a dramatic revival. The day after this September's constitution-day anniversary, people all over the country congregated to read every word together aloud, a "profoundly moving exercise that will take less than one hour", according to the gatherings' organisers. At almost any tea-party meeting you can expect to see some patriot brandishing a copy of the hallowed texts and calling, with trembling voice, for a prodigal America to redeem itself by returning to its "founding principles". The *Washington Post* reports that Colonial Williamsburg has been crowded with tea-partiers, asking the actors who play George Washington and his fellow founders for advice on how to cast off a tyrannical government.

Conservative think-tanks have the same dream of return to a prelapsarian innocence. The Heritage Foundation is running a "first principles" project "to save America by reclaiming its truths and its promises and conserving its liberating principles for ourselves and our posterity". A Heritage book and video ("We Still Hold These Truths") promotes the old verities as a panacea for present ills. America, such conservatives say, took a wrong turn when Woodrow Wilson and Theodore Roosevelt fell under the spell of progressive ideas and expanded the scope of government beyond both the founders' imaginings and the competence of any state. Under the cover of war and recession (never let a crisis go to waste, said Barack Obama's chief of staff,

Rahm Emanuel), Franklin Roosevelt, Lyndon Johnson and now Mr Obama continued the bad work. Thus has mankind's greatest experiment in self-government been crushed by a monstrous Leviathan.

Accept for argument's sake that those who argue this way have identified the right problem. The constitution, on its own, does not provide the solution. Indeed, there is something infantile in the belief of the constitution-worshippers that the complex political arguments of today can be settled by simple fidelity to a document written in the 18th century. Michael Klarman of the Harvard Law School has a label for this urge to seek revealed truth in the sacred texts. He calls it "constitutional idolatry".

The constitution is a thing of wonder, all the more miraculous for having been written when the rest of the world's peoples were still under the boot of kings and emperors (with the magnificent exception of Britain's constitutional monarchy, of course). But many of the tea-partiers have invented a strangely ahistorical version of it. For example, they say that the framers' aim was to check the central government and protect the rights of the states. In fact the constitution of 1787 set out to do the opposite: to bolster the centre and weaken the power the states had briefly enjoyed under the new republic's Articles of Confederation of 1777.

The words of men, not of gods

When history is turned into scripture and men into deities, truth is the victim. The framers were giants, visionaries and polymaths. But they were also aristocrats, creatures of their time fearful of what they considered the excessive democracy taking hold in the states in the 1780s. They did not believe that poor men, or any women, let alone slaves, should have the vote. Many of their decisions, such as giving every state two senators regardless of population, were the product not of Olympian sagacity but of grubby power-struggles and compromises—exactly the sort of backroom dealmaking, in fact, in which today's Congress excels and which is now so much out of favour with the tea-partiers.

More to the point is that the constitution provides few answers to the hard questions thrown up by modern politics. Should gays marry? No answer there. Mr Klarman argues that the framers would not even recognise America's modern government, with its mighty administrative branch and imperial executive. As to what they would have made of the modern welfare state, who can tell? To ask that question after the passage of two centuries, says Pietro Nivola of the Brookings Institution, is to pose an impossible thought experiment.

None of this is to say that the modern state is not bloated or over-mighty. There is assuredly a case to be made for reducing its size and ambitions and giving greater responsibilities to individuals. But this is a case that needs to be made and remade from first principles in every political generation, not just by consulting a text put on paper in a bygone age. *Pace* Ms Bachmann, the constitution is for all Americans and does not belong to her party alone. Nor did Jefferson write a mission statement for the tea- partiers. They are going to have to write one for themselves.

Economist.com/blogs/lexington

United States

The Economist

Venezuela's legislative election

Chávez grapples with a 50/50 nation

A newly united opposition hopes that a legislative election will at least start to dent the president's monopoly of power

Sep 23rd 2010 | CARACAS

IT MAY be only a legislative election, in a country where all power lies with Hugo Chávez, the president. But both Mr Chávez and his opponents see the vote for the 165-seat National Assembly on September 26th as crucial to their future. Mr Chávez, though not a candidate, has turned it into a plebiscite on himself. Most government campaign posters feature his image. He is criss-crossing the country. “The revolution has just one voice,” declared Marcos Díaz, the governor of Mérida state, during a televised campaign stop. Redshirted state employees chanted “with Chávez everything, without Chávez nothing”.

Having ill-advisedly chosen to boycott the parliamentary election in 2005 on the ground that it feared it would not be free or fair, the opposition has had to watch as a rubber-stamp assembly passed laws restricting private business and concentrating ever more power in the executive. If the opposition's Venezuela Unity alliance fails to win enough seats to provide a counterweight, it fears that Venezuela will slide ever-faster towards dictatorship.

For his part, Mr Chávez claims that if the opposition were to gain a majority in the assembly, this would “accelerate the destabilisation of the country”. He says that the opposition's “only goal [is to] overthrow and put a stop to” his revolution. The government's propaganda veers between proclaiming a monopoly on “peace and love”, and issuing blood-curdling threats of “demolition” (Mr Chávez) or “liquidation” (his campaign chief) of its opponents. One advertisement features a pugnacious congresswoman declaring that the opposition “has no life” left while drawing a finger across her throat.

Helped by record oil prices and his rapport with ordinary Venezuelans, Mr Chávez has won a dozen national votes since he came to office in 1999. But Venezuela faces mounting difficulties. The economy is in its second year of recession, inflation is running at 30% and violent crime claims almost 20,000 lives a year. Public services are in tatters and the government has been hit by a series of scandals, including the loss of at least 130,000 tonnes of imported food, left to rot in containers. This year began with daily power cuts caused by a combination of drought and mismanagement. These drove Mr Chávez's poll rating down to around 40%, but it has since rebounded a bit. Officials claim to have resolved the electricity problem. Critics say that the president has merely managed to shift the blame to opposition “sabotage”.

The polls suggest that the electorate is almost equally divided. Even GIS XXI, a pollster with close ties to the government, gives the ruling Unified Socialist Party (PSUV) and its Communist allies a lead of only 5.2% over the opposition alliance. But changes to the electoral system rammed through by the government mean that a narrow lead is enough to give the PSUV a landslide victory. The changes abolish proportional representation, even though it is written into the 1999 constitution. And poorer, rural states where Mr Chávez has more support will be significantly over-represented in the new assembly.

Jesse Chacón, a former interior minister who now runs GIS XXI, reckons that the government can retain a two-thirds majority in the assembly with only 52% of the vote. He says that even if the votes were evenly split, the government would still win 97 seats to the opposition's 68. In contrast, the opposition needs up to 53% of the popular vote just to win a simple majority of seats, according to Francisco Toro, an opposition blogger. The changes to the electoral system have also had the effect of penalising third parties. A group of moderate former *chavistas* is unlikely to win many seats outside the home state of its most popular leader, Henri Falcón.

Mr Chávez enjoys other advantages. The constitution prohibits government officials, including the president, from using their position to favour a political tendency. But the electoral authority, whose board comprises four *chavistas* and a lone oppositionist, says they can do it anyway. Government-run media, including six television channels, give blanket coverage to the PSUV's campaign and token, hostile interviews to opposition candidates. Only two free-to-air channels have balanced coverage. Short of money and up against the might of the state, the opposition nonetheless hopes that enough *chavista* voters will stay at home to give it a majority of the popular vote.

Even if the government wins, the election is likely to show that Mr Chávez has lost the commanding majority of the electorate that supported him at the presidential election in 2006. And the opposition, a variegated coalition of 18 parties, has managed to forge a single list of candidates in months of bruising negotiations. The opposition hopes at least to deprive Mr Chávez of a two-thirds majority in the legislature. That would mean the government would have to negotiate over the appointment of supreme-court justices and three new members of the electoral authority, who are due to be chosen almost as soon as the new parliament is sworn in.

In theory, at least. After the opposition won several big, urbanised states and the mayoralty of Caracas in a regional vote in 2008, Mr Chávez stripped state governors and the metropolitan mayor of many powers, along with much of their budget. Mr Chávez is given to "stretching the chewing-gum of democracy" as Laureano Márquez, a comedian and political analyst, puts it, adding that an opposition win on Sunday would see him stretch it yet again. "Under no circumstances can he contemplate losing power," says Mr Márquez. Officials are drawing up plans for a "communal assembly", ultimately controlled from the presidential palace, which would encroach on the legislature's functions.

At the second attempt, in 2009 Mr Chávez won a referendum to change the constitution to abolish term limits. He has already announced that he will stand for another six-year term in the presidential election in two years' time. He says his re-election campaign will begin immediately after the parliamentary vote. Despite his waning popularity, he is a phenomenal campaigner. Throughout his decade in power he has urged Venezuelans to focus on the Utopia he says lies ahead. And even—or perhaps especially—amid the country's impoverishment today, Utopia remains a powerful draw.

The Americas

The Economist

Energy policy in Quebec

High-speed gas

Too fast for a green province

Sep 23rd 2010 | OTTAWA

MOST people would be delighted to discover that they were sitting on top of natural gas reserves that could potentially supply their needs for the next century or so. No more worrying about complicated Middle East politics or whether oil supplies are past their peak. Yet in the Canadian province of Quebec, news of abundant gas in the shale beneath the St Lawrence river basin has not been met with unalloyed joy. Although Nathalie Normandeau, the minister of natural resources, calls future self-sufficiency in natural gas a historic opportunity for the French-speaking province, a surprising number of people have stepped forward to say “no thanks” or “not yet”.

That is partly because of Quebec’s good fortune in generating so much hydroelectricity that it exports its surplus to Ontario and to north-eastern United States. It has plans to seek additional customers in both countries. The James Bay project, the biggest clutch of the 60 generating stations owned by Hydro-Québec, a utility owned by the provincial government, generates eight times the power of the Hoover Dam.

This abundance of cheap renewable electricity is the main reason why Quebeckers are “finicky” about shale gas, says Christian Bourque, a pollster based in Montreal. It has allowed them to be proudly green. At the Copenhagen summit on climate change in December, officials from Quebec publicly chided their counterparts from Alberta over their failure to reduce carbon emissions from the tar sands in the western province. They also called on the federal government to speed up its lackadaisical efforts to bring in a national plan to reduce emissions.

Environmentalists fret that development of the St Lawrence basin gas deposits would enlarge the province’s carbon footprint. Farmers have a more pragmatic reason for worrying about natural-gas development in what is the most fertile part of the province. They point to complaints in Pennsylvania that hydraulic fracturing or fracking—the high-pressure injection of water and chemicals into the shale to free the natural gas—has polluted water below the surface and on the ground. The governor of New York says that development of a shale formation in the catchment area for New York City will not go ahead until he has “overwhelming evidence” that fracking will not harm water supplies. The Quebec farmers’ union wants the provincial government to allay such concerns before allowing full-scale production.

While the existence of the deposits has been known for some time, it is only recently that new technologies have made the extraction of gas from shale commercially viable. The provincial government plans to issue regulations for the new industry next year. It has expedited the timetable for a public consultation. All this strikes some Quebeckers as too rushed. The Parti Québécois, the main opposition, has called for a moratorium.

Officials in Jean Charest’s Liberal provincial government point out that Quebec imports oil and gas worth C$14 billion ($14 billion) a year, mostly from western Canada, and will benefit from having supplies closer to home. Use of natural gas emits less carbon than oil. Mr Charest’s administration has been weakened by minor scandals and by revelations that some businessmen in the gas industry have ties to the Liberals. While these charges are unlikely to stop natural-gas

development in the province, they may slow it down. Quebec's governments, including those of Mr Charest, have spent decades telling Quebeckers that they are greener than green. It seems many have believed them.

The Americas

The Economist

Brazil and peacekeeping

Policy, not altruism

How global ambitions are helping to modernise the army

Sep 23rd 2010 | RIO DE JANEIRO

A new Brazilian way of soldiering

BRAZIL'S military bands are not like those of other countries. The one welcoming a group of visiting Americans was playing with even more than its usual stomp. The singer's jeans seemed to have been sprayed on. But this was not your normal military band. It belonged to the country's peacekeeping force which soothed Haiti during an especially tense period in 2007, teaming up with local *rara* bands to perform at voodoo-influenced Lenten ceremonies.

Brazil has long been an enthusiastic peacekeeper, sending troops to half the 60 or so UN operations since 1948. But in the past few years, peacekeeping has become a more important component of Brazil's foreign policy, while also playing a role back home. It has served as a way for Luiz Inácio Lula da Silva, the president since 2003, to boost his country's standing in the world. "Brazil wants to make, as well as follow, international norms," says Monica Herz of the Catholic University in Rio de Janeiro. "Brazil's elite thinks peacekeeping is part of the price you have to pay to be among the nations who make the rules."

The clearest sign of this calculation was the decision in 2004 to take charge of the Haiti operation, now 13,000 strong and the UN's third-largest mission. This month Brazil announced that it will also take command of the naval part of the UN's mission in Lebanon. Haiti was significant not just because this was the first mission Brazil commanded, but also because it showed that the government was willing to stretch what until then had been an article of foreign-policy faith: non-interference in other countries' internal affairs.

Brazil had previously balked at missions mandated under chapter seven of the UN charter, which permits forcible intervention ("peace enforcement" as opposed to peacekeeping, which takes place under chapter six and requires the consent of those concerned). Haiti was a chapter-seven operation, and Brazil's involvement required diplomatic contortions by both it and the UN to pretend that it wasn't.

In 2005 Brazil boosted its credentials further by opening a peacekeeping school, the Centro de Instrução de Operações de Paz (CIOpPaz) near Rio de Janeiro. CIOpPaz has since trained 15,000 troops, of which 2,300 are on active duty. All are volunteers and the training programmes are hugely oversubscribed.

This effort has domestic payoffs, too. There may be some synergy between peacekeeping and security in *favelas* (slums). Brazil's peacekeepers conduct joint exercises with the police in *favelas*, while the director of Viva Rio, an NGO that works in some of Rio de Janeiro's toughest slums, teaches at CIOpPaz.

More important, peacekeeping helps to modernise the army, which has changed surprisingly little since it ran the country in a dictatorship lasting from 1964 to 1985. With democracy firmly established, it needs to find a new job (the country faces few security threats). Peacekeeping can help. "We've shifted from teaching purely military aspects to teaching how to align military and

civilian goals," says Colonel Pedro Pessôa, the head of CIOpPaz. Clovis Brigagão of Candido Mendes University in Rio says peacekeeping encourages "the democratisation of the military mindset. The old generation is all about war and security. In another generation we'll have a new military, with an international outlook and new ideas about conflict prevention, civilian governance and the rule of law."

Brazil's armed forces are balkanised, with each service acting autonomously. Remarkably, only this month was the first joint chief of staff appointed. CIOpPaz has pioneered inter-service collaboration, with members of all three branches of the armed forces taking part in its training courses side by side.

It is not clear how much further Brazil is willing to go in keeping the world's peace. Even Lula, who is stratospherically popular, has shied away from openly supporting peace enforcement—and the left still attacked him over Haiti for bending the Brazilian tradition of non-intervention. While there are no significant differences in the main parties' attitudes to peacekeeping, whoever wins the presidential election on October 3rd is unlikely to be as activist in foreign policy as Lula, at least for a while. In peacekeeping as in other matters, Brazil's global ambitions tend to move two steps forward and one back.

Peru's reviving left

Oh! Susana

A mayoral contest may rewrite the country's political script

Sep 23rd 2010 | LIMA

A PINK tide of left-wing election victories may have washed over much of Latin America in the past decade, but Peru has been a notable exception. The reasons are not hard to discern. The far left was discredited by the terrorist violence unleashed by the Maoist Shining Path and Marxist Túpac Amaru guerrillas in the 1980s and 1990s. Just as disastrously, the left's economic recipes produced hyperinflation and slump during the presidency of Alan García between 1985 and 1990. In contrast, the economy has grown vigorously for most of the past 15 years under right-of-centre presidents, currently the self-same Mr García, now reinvented as a neoconservative.

Villarán promises clean government

But is Peru's left at last poised for a revival? If the opinion polls are correct, Susana Villarán, a human-rights activist who is standing for a new left-wing party called Fuerza Social (Social Force), will be elected mayor of Lima, the capital, on October 3rd. It would be the first time the left has won the capital since 1983.

Ms Villarán's rise in the polls has been sudden and unexpected. A popular conservative candidate, Alex Kouri, was disqualified on a technicality. That was expected to benefit Lourdes Flores, another conservative who twice ran for president. But support for Ms Flores, a lawyer, began to slip when it was revealed that she had advised a convicted drug trafficker. Then tapes surfaced of phone calls in which, bizarrely, she said she wasn't very interested in being mayor anyway. Such illegal telephone-tapping has besmirched Peruvian politics since it was deployed against opponents by Alberto Fujimori, a conservative president who revived the economy in the 1990s but is now in jail.

Ms Villarán is a moderate who promises clean and efficient municipal government. But if she wins, and if her allies do well in other cities and regions next month, that will cast uncertainty over the outcome of a presidential election due in April. In 2006 Mr García won only narrowly against Ollanta Humala, a populist former army officer who sympathised with Venezuela's Hugo Chávez. Since then Mr Humala's star has waned. Partly because of the economy's strong growth, he has tried to repackage himself as a centrist. Even so, the polls suggest that he would be easily beaten in April by several centrist and conservative contenders, including Mr Fujimori's daughter, Keiko.

Ms Villarán does not support Mr Humala, but some in her party do. As the presidential vote draws nearer, the left's support may rise. If it does, it will be because of the flaws of the right as much as the virtues of the left. Mr García has failed to stamp out rampant corruption in his party, and his government has not done as much as it might to use increased tax revenues to make social programmes more effective. Peruvians are still searching for the politician who can combine economic growth with clean, fair and effective government.

The Americas

The Economist

North Korea's succession

Next of Kim

A dangerous succession gets under way in North Korea. Probably

Sep 23rd 2010 | BEIJING AND SEOUL


Corbis

NORTH KOREA has long been one of the world's most unpredictable and dangerous states. It now seems to be entering a period in which it could be even more unpredictable and dangerous than usual: the possible handover of power from one generation to the next.

On September 28th, after an unexplained postponement, the ruling Korean Workers' Party is due to assemble for its first large gathering in 30 years. Its purpose is to "elect the supreme leadership body" of the party. At the last congress in 1980, the current boss, Kim Jong Il, was elevated to the position from which he eventually succeeded his father. This time, rumour has it, Mr Kim's third son, Kim Jong Un, will be given a job in the public eye, in preparation for taking over in due course. With relations between the two Koreas fraught after the sinking of a South Korean ship in March, with outside parties keen to persuade a nuclear-armed North to rejoin six-party talks on disarmament and with China apparently still backing the North (economically, at least), the neighbours are watching the opaque proceedings with nervousness.

At least the conference's postponement is susceptible of an innocent explanation. Months of torrential rain have caused flooding and landslides all over the country. Though the delay was also put down to Kim Jong Il's poor health, and even to stories of unresolved factional in-fighting, the simplest explanation, says a South Korean former government adviser on North Korea, is that the government could not ensure all delegates would reach Pyongyang on time, so chose to postpone the start.

The bigger question is what the conference might mean for the future of the reclusive state. North Korea is unique among communist countries in having what amounts to a royal family. The current dictator, Kim Jong Il, inherited power from his father, Kim Il Sung. The personality cult extends not only to them, but to Kim senior's mother, Kang Ban Suk ("mother of Korea"), to his first wife, Kim Chong Suk ("mother of revolution"), and to his brother, Kim Chol Ju ("the revolutionary fighter"). The picture above shows the two dictators and the mother of revolution.

It would suit the bizarre logic of this communist monarchy that a son of the "Dear Leader" should take control one day. Kim Jong Il is said to be seriously ill. There have been repeated stories of strokes and pancreatic cancer. He would seem to have an interest in planning now to hand over to an anointed successor. (It should however be admitted that according to a former American

president, Jimmy Carter, who recently met China's prime minister, Wen Jiabao, Kim Jong Il told Mr Wen that the idea that a succession is under way was a "false rumour from the West".)

The difficulty Kim Jong Un would face—if he were anointed dictator-in-waiting—is that at 27 (or 28, depending on whom you believe), he is too young to have real influence over the two institutions that matter, the party and the army. Kim Jong Il had 14 years in which to build up loyalties between his anointment and eventual succession. But if his health is as bad as it seems, his Swiss-educated, basketball-playing son would probably have a lot less. Much would therefore depend on those around him, and especially on Chang Sung Taek, Kim Jong Il's brother-in-law and the second most powerful man in the country.

The young Un

In June Mr Chang was promoted to the post of vice-chairman of the National Defence Commission, the country's decision-making body. He himself has been considered a possible successor to Mr Kim but his recent promotion has been interpreted as a manoeuvre to bolster Kim Jong Un. The idea is that Mr Chang will act as a kind of regent. But it is also possible that Kim Jong Un is being groomed as successor in name only. He is thought to have been picked ahead of his two older brothers solely because he is the least bad of a bad lot. It is possible that Kim Jong Il may expect the regent to govern indefinitely.

Whether North Korea can manage a successful transition depends not only on events inside the country, but also on China, without whose help the North would quickly collapse. Privately, many Chinese pour scorn on the Kim dynasty. But the government would probably be content with any arrangement that has a reasonable chance of keeping the country stable and on good terms with Beijing.

Mr Kim's recent visits to China made clear that, notwithstanding Chinese support for UN sanctions against the North, he accepts that friendly ties with the regional giant remain crucial to his country's survival. China is unlikely to push Mr Kim or his successor into reforming the North's political system, though some observers of North Korea think China may want Mr Kim to boost the role of the party at the expense of the army to make the regime less unpredictable. But China will continue trying to prod the North Koreans into reforming the economy and opening the country more to the outside world. It hopes a transformation like the one that China itself has achieved since the death of Mao Zedong might avert a sudden collapse. When Kim Il Sung wanted to build up Kim Jong Il's authority in the 1980s, the North could still play China off against its rival, the Soviet Union, to ensure the support of both. Now North Korea has only China to turn to if the political transition that seems to be starting goes awry.

Asia

The Economist

China's spat with Japan

Deng's heirs ignore his advice

A row over disputed islands goes from bad to worse

Sep 23rd 2010 | BEIJING AND TOKYO

Japan out, say China's rare protesters

"PERHAPS the next generation will be wiser than us and find a way of actually resolving this problem." China's then leader, Deng Xiaoping, who said this in 1978, has been proven wrong about his country's dispute with Japan over the Senkaku Islands, known in China as the Diaoyu. In recent days tensions have risen to a point where China's leaders refuse even to meet their Japanese counterparts and are threatening worse to come.

China's response to Japan's arrest on September 7th of a Chinese fishing crew near the disputed islands has exposed a dangerous source of instability in the relationship. Far from putting the dispute to one side, as Deng urged, China is escalating it into a full-blown diplomatic stand-off. It has suspended official exchanges with Japan at the level of government minister or above, including provincial leaders. The prime minister, Wen Jiabao, is unlikely even to meet his Japanese counterpart, Naoto Kan, in the sidelines of a United Nations gathering attended by both men in New York this week. A Chinese spokeswoman said the atmosphere was "not suitable".

In New York, Mr Wen has repeated China's calls for the release of the crew's captain, Zhan Qixiong, "immediately and unconditionally". He gave warning of unspecified "further actions" if Japan does not comply. Mr Zhan's 14 fellow fishermen were allowed home on September 13th, but Japanese authorities are still considering whether or not to press charges against Mr Zhan for allegedly bashing his boat into two Japanese patrol craft near the edge of Japan's territorial waters. Prosecutors must reach their decision by September 29th.

China maintains that the uninhabited islands were seized by Japan when it took over Taiwan at the end of a war between the two countries in 1895. Taiwan was handed back to China at the end of the second world war, but the islands remained under the control of the Americans, who administered them as part of the Okinawa island chain. America handed Okinawa back to Japan in 1972, including the Senkakus. Japan says the islands have always been Japanese. America takes no position on the rival sovereignty claims. But it has said that its defence treaty with Japan applies to the islands.

Japan's alliance with America and its own considerable military muscle make it highly unlikely China would risk armed conflict over the islands. But China has allowed its wrath to go far beyond the diplomatic realm. It has suspended talks on the joint exploration of gasfields in the East China Sea as well as over increased flights between the two countries. It has cancelled a Chinese government-sponsored visit by 1,000 young Japanese people to the World Expo in Shanghai (again citing an inappropriate atmosphere).

One card that China has avoided playing—much to Japan's relief—is encouraging its citizens to take to the streets in protest. During a big spat between the two countries in 2005, thousands of Chinese took part in sometimes unruly demonstrations that appeared at first to enjoy tacit government backing. Japanese officials feared that similar unrest might break out on September 18th, the anniversary of an incident in 1931 that led to Japan's occupation of north-east China.

Scattered protests did take place, but they were tiny, peaceful and heavily policed. China seems anxious to discourage any larger display.

Mr Kan could still intervene to avoid a trial that might inflame public opinion in China. In 2004 Junichiro Koizumi, the prime minister, did so when a group of Chinese activists landed on one of the islands (he simply had them deported). One way out of the imbroglio, suggests a Japanese diplomat, might be for the government to ask prosecutors to impose a nominal fine on the captain and release him.

Even if popular nationalism in China so far appears in check (except online), there are concerns in Asia that China's leadership is becoming more assertive over its far-flung maritime interests. In recent months Chinese officials have complained bitterly about American military exercises in the Yellow Sea and asserted that China's claims to the South China Sea are a core national interest. A stronger China is becoming less heedful of Deng's strategy of caution.

Asia

The Economist

Indonesia's capital

Metro or bust

Should Indonesia move its capital city?

Sep 23rd 2010 | JAKARTA

JAKARTA, Indonesia's capital, is maddening to navigate. Traffic is so bad that car journeys of a few kilometres can take a couple of hours. People are routinely late for meetings. Business lunches are rare. Recently a highway collapsed, causing an epic snarl-up. Perhaps President Susilo Bambang Yudhoyono (SBY) got stuck in it. At any rate, he is proposing to abandon Jakarta as the capital and has teams working out how and where to move to.

Putting the government somewhere else is not a new idea. Politicians, including SBY, have floated it sporadically over the years. Nothing has been done because Indonesia's bureaucratic gridlock is as bad as its traffic. But the persistent debate highlights the city's problems.

Jakarta is the largest city in the world without a metro. With 10m people and buses the only form of public transport, it is not the kind of showcase that an aspirant to BRIC status would want as its capital (nor, it might be said, are Beijing and Delhi). Traffic moves at an average of 8mph (13kph), compared with 12mph in London. Loose consumer credit and fuel subsidies are boosting car ownership by 10-15% a year. Motorcycles can be acquired with a downpayment of as little as $30.

This is no mere nuisance. Recent reports from the Asian Development Bank and the IMF argue that poor infrastructure is a significant obstacle to Indonesia's growth. The city estimates that it loses over $3 billion a year because of transport delays.

Moving the capital would reduce delays and hence costs—in theory. But it is unclear whether the president's proposal is anything more than playing to the gallery. Just before he announced his intention to relocate the government, his vice-president, Boediono, unveiled a 17-point plan to cut the jams in Jakarta. SBY seems to have resurrected the issue to upstage his subordinate. The president's approval rating has fallen by about 40 points in the past year, according to an Indo Barometer poll. He sorely needs a signature project.

So does Jakarta. But the 17-point plan is not it. In the short term, the plan proposes an electronic tax-collecting system, a fuel premium for private cars, imposing parking charges and creating more bus lanes. It sounds fine. But most second-hand cars are not registered to their new owners. The fuel premium, experts say, is not high enough to make a difference. And the bus lanes would make already narrow roads even narrower.

What Jakarta really needs is a metro. And, at last, plans mooted as long ago as the 1980s may be gaining traction. Last year Indonesia secured low-interest loans from the Japan International Co-operation Agency to finance most of the project. The bigger test will be whether the money actually results in a new system, or whether it simply goes on lining the pockets of government officials. SBY's popularity, and perhaps his legacy, may be determined by whether he pushes this project through in the existing capital, not whether he creates a new one.

Asia

The Economist

Afghanistan's parliamentary election

Not exactly a ringing endorsement

Another year, another rigged vote

Sep 23rd 2010 | KABUL

A rare sight, for more reasons than one

NOBODY sitting in the sun-drenched rose garden in Kabul where the self-styled leader of Afghanistan's opposition likes to hold court could avoid the feeling of déjà vu. It was in the same setting in August 2009 that Abdullah Abdullah denounced the fraud that wrecked the legitimacy of the presidential election he lost. One year on and nothing seems to have changed. As the figurehead to a slate of parliamentary candidates, the nattily dressed politician announced that the legislative election on September 18th was beset by "massive fraud and rigging". He even promised to repeat last year's *coup de théatre* by showing videos of ballot stuffing. "Most of the mistakes of the past have repeated themselves," he said.

The same problems are re-emerging largely because too little was done to clean up Afghanistan's electoral machinery after last year's flawed presidential poll. The country still has about 5m more voter cards than actual voters, for example. But in two respects, things have actually got much worse.

First, the Electoral Complaints Commission (ECC) has lost much of its independence. After the commission found that at least 1m votes had been fraudulently cast for him in the presidential poll, President Hamid Karzai gave himself the right to appoint its members. Second, neither Mr Karzai nor any of his international allies wants to look too deeply into accusations of irregularities this time round. NATO heads of government are due to meet for a summit on Afghanistan shortly after the election results are due to be announced on October 31st.

So, already, everyone is pretending that the vote was a success. NATO spokesmen announced that the Afghan army and police performed well on polling day and that the number of security incidents was down. Actually, as NATO now admits, the number of violent incidents increased by about a third compared with presidential polling day, which until now had been the most violent day in the history of modern Afghanistan.

A vote to set democracy back

A variety of high turnout statistics have also been proffered, though they are largely meaningless in a country without a proper census, so that nobody knows how many eligible voters there are.

There were, however, 4.3m ballots cast—making this the least well-attended of the four national elections of the post-Taliban era. Even then, nobody knows quite how many of those votes were cast legitimately.

The Free and Fair Elections Foundation of Afghanistan, an NGO, said that its observers saw ballot stuffing in almost every province. Sources within the Independent Election Commission say turnout in some polling stations in insecure areas exceeded 100%. And the ECC has received almost 4,000 complaints of irregularities.

The questions now are how many of them will the ECC dare investigate and how long will it be allowed to hold up the announcement of an official result? Mr Karzai has already said that he wants to see a speedy outcome. No wonder that there is a growing sense of gloom among observers, as well as of déjà vu. As Dr Abdullah puts it, with or without a proper inquiry, "democracy is already damaged."

Asia

The Economist

Banyan

The games people play (or not)

Why Delhi's Commonwealth games fiasco is not all bad news

Sep 23rd 2010

PLAYING the fantasist Walter Mitty in a film based on James Thurber's short story, Danny Kaye at one point dreams he is a dashing fighter pilot returning from a successful mission, his arm broken in combat. "Merely a scratch", he says, insouciantly. S. Jaipal Reddy, India's urban-development minister, this week displayed similar imaginary sangfroid under fire, as he was sent in front of the cameras to defend India's preparations for the 19th Commonwealth games, due to begin in Delhi on October 3rd.

The games seem to have been cursed. The curses have included a terrorist attack in Delhi; corruption and over-invoicing; a heavy monsoon; dengue fever; the withdrawal of leading athletes; the collapse of a footbridge at the main stadium; the ceiling falling in at the weightlifting venue; the boss of the games' federation calling the "village" of brand-new and allegedly luxury high-rise apartments built to accommodate the athletes "filthy and uninhabitable"; and warnings from a number of national teams that they might not come if things don't improve more quickly than seems possible.

For Mr Reddy, the ack-ack guns held no fears. "All minor hiccups," he opined. "We will have a very successful games." That is already a forlorn hope. Indeed, holding any games at all will count as an achievement. The range of possible outcomes has been truncated. At one end is total cancellation; at the other, not a successful games, but a fiasco that, despite everything, manages to happen. This is a bitter blow for those in India who really dreamed that this—as the hype had it—was Delhi's chance to join a sequence of modernising Asian capitals: Tokyo 1964! Seoul 1988! Beijing 2008! Delhi 2010!

The comparison with China will be especially painful. That India cannot match its organisational prowess will provoke much hand-wringing about national humiliation and the bloodiness of democracy and how it stops anything getting done. There will also, probably, be complaints about anti-Indian bias. Lalit Bhanot, secretary-general of the Commonwealth Games Organising Committee, was pilloried for his defence of the levels of hygiene in the village. He said such standards differ from person to person. But he will not be alone in suggesting that India has been measured against unreasonably high benchmarks.

This is untrue. Cleanliness may not be next to godliness, but it is a relatively objective criterion.

Better if India takes the flak for the games' shortcomings not as an insult, but as a jolt that can be turned to good use, by recognising three truths about the country, two of which Indians often prefer to ignore.

The first is that corruption is pervasive at every level of society and is not a trivial complaint like the common cold, but a cancer. The graft-busting Central Vigilance Commission found that the use of second-rate materials and inflated pricing was widespread in preparations for the games, the most expensive in history. Toilet rolls, in one widely cited example, were reported to have been billed at 4,000 rupees ($88) each. Most people's reaction to such stories is to laugh. But the joke is on India.

The second is that India is unusually vulnerable to terrorists. It is an open society under attack from both home-grown terrorists and those sponsored by its neighbours. By an Australian government tally, Delhi itself has been attacked 14 times since 2000. The latest atrocity came on September 19th, when two Taiwanese tourists were wounded in a submachinegun attack outside the Jama Masjid, a Mughal-era mosque that is one of Delhi's most popular tourist attractions. The Indian Mujahideen, an Islamist group thought to be linked to Lashkar-e-Taiba, a Pakistan-based terrorist outfit, claimed responsibility. “We know preparations for the games are at their peak,” it e-mailed the press after the Delhi shootings. “Beware, we too are preparing in full swing for a great surprise.”

The government has tried to play down the threat of Islamic terrorism but has failed to allay the fears of visitors and athletes, a number of whom have withdrawn from the games. As England's world triple-jump champion, Phillips Idowu, told his fans, “sorry, people, but I have children to think about.”

Even without the games and the lure of the international publicity they promise terrorists, India faces threats on a number of fronts. The Indian-controlled, Muslim-majority, Kashmir valley is in ferment. Over 100 people have died in the past three months in clashes with the security forces. And on September 24th a court was due to rule on one of the most divisive issues in Indian politics: the ownership of a disputed site in the northern city of Ayodhya, where in 1992, Hindu zealots demolished a mosque built on the reputed site of a temple marking the birthplace of the god Ram. And it is surely only a matter of time before India's spreading Maoist insurgency turns its activities from rural thuggery to urban terrorism.

So athletes are right to be worried. Delays to the opening of venues have held up security arrangements. An Australian television channel reported that one of its reporters had successfully entered a stadium with a suitcase containing crude explosives.

Just don't do it

All of which poses questions about whether India should be aspiring to hold events such as these games at all. The third truth, which also argues for shunning them, is one to be proud of. India is a democracy. It is hard to deny that its political system complicates the organisation of such events. Responsibilities are split between the federal government, the local authorities in Delhi and the various sports bodies. And, in a democracy, every decision is contested. That the prime minister cannot snap his fingers, tell everybody to fall into line and “just do it” may be embarrassing. But not many Indians would prefer it another way.

Economist.com/blogs/banyan

Asia

The Economist

South Sudan

Are they heading for a crash?

Next year Africa could get its first new country, to be called South Sudan, for almost 20 years. But the fledgling state looks perilously weak

Sep 23rd 2010 | JUBA AND KHARTOUM

ON OR about January 9th, the people of southern Sudan should have an opportunity to vote in a referendum on whether to break away from the Republic of Sudan and create their own country. If, as seems likely, they vote overwhelmingly for independence rather than to stay with the north, Africa will get a freshly minted country by the middle of next year.

The government-in-waiting of the new country calls the referendum “the final walk to freedom”. For the Sudan People’s Liberation Movement (SPLM), the southerners’ main party, led by Salva Kiir, it is the culmination of half a century of often bloody struggle for recognition against successive Islamist regimes in Khartoum. These tried to impose an Arab and Muslim culture on the largely black African, Christian and animist south. By the time the fighting stopped in 2005, Africa’s longest civil war had cost 2.5m lives and displaced many millions more. Much of the region was devastated.

The Comprehensive Peace Agreement (CPA) that ended the war set up the semi-autonomous region of South Sudan, to be ruled by the SPLM, as well as a government of national unity in Khartoum led by President Omar al-Bashir, to include the SPLM. The two sides were to work for the country’s unity in a new federal arrangement, but the south also won the right to a referendum on outright secession.

Despite the odd rhetorical nod towards unity, as demanded by the CPA, it is rare to find anyone among the 8m southerners who is not going to vote for independence. Indeed, Juba, the south’s biggest town and capital, exudes a mood of expectation. After a five-year makeover of the government quarter, it gives every appearance of being ready to take its place among the capitals of Africa.

Smart paved roads (and even streetlamps) now lead to brand-new air-conditioned ministerial offices. Workers are putting the finishing touches to a new presidential compound that occupies an entire block in the middle of town. The president’s own palace is a colonial-era building, but it has been completely revamped with a splash of contemporary mock-Pharaonic styling and buttresses tapering towards the upper floors. Behind it is a helipad.

The shiny new presidential buildings include an office suite and large conference and dining halls.

The South Korean interior designer enthusiastically invites your correspondent to admire the chandeliers and carpets from his own country. The door frames are from China and the floor marble has been imported from Uganda. But it is not all for work. Adjoining the palace is a sizeable swimming pool and a presidential gym, though the exercise bikes are still in their containers. There is even a pinewood sauna, though you can work up just as much sweat by standing outside.

But beyond the SPLM leaders' rosy poolside view is a more worrying picture. For a start, it is not certain that the Sudanese government in Khartoum will let the referendum proceed as planned. Even if it does, the outcome will be extremely messy. Moreover, outside Juba the condition of southern Sudan is still dire.

Most southerners think they are marching relentlessly towards independence. But the view from Khartoum is, as ever, utterly different. There, most Sudanese are in a state of denial about the referendum, let alone about independence. When it is mentioned, which is rare, it is only in terms of "maintaining the country's unity". Although Mr Bashir has stated publicly that the north will not stop the south if it wants to break off, almost nobody in the north can bring himself to contemplate the probability that, in less than a year, the country will be dismembered and broken into two. Some fear that this attitude could even lead to a new war.

This state of denial stems partly from the fact that the north's politicians never wanted the south to have a referendum in the first place. It was forced on the north, as part of the CPA, only under extreme pressure from the West. And as only people of southern ethnic origin will be voting in the referendum, the rest of the Sudanese have had little reason to think about it at all. Many politicians from Mr Bashir's ruling National Congress Party (NCP) genuinely seem to believe that keeping Sudan as one big country is so obviously better for everyone than breaking it up that they have only to do a little bit of campaigning and spend a little bit of money, and the southerners will come to their senses and forget the whole idea.

Denial is a river in northern Sudan

This delusion shows how little northern Sudan's ruling Arab politicians understand southern sensibilities. In practice, it means that since June, virtually for the first time since the peace deal was signed in 2005, the north has been releasing money for road-building and other development projects in the south. This is an extremely belated attempt to show the benefits of sticking with the Khartoum government. The northerners' belief that this may suddenly compensate for decades of oppression, aggression and neglect illustrates how lightly many take southern feelings. It is also indicative of the north's attitude to the referendum that the man appointed to oversee it for Khartoum is Salah Gosh, well known to the CIA and to Britain's MI6 as a long-serving former head of Sudan's intelligence services.

Northern efforts to drag out, delay or sabotage the referendum are increasingly blatant. A commission to oversee the referendum has only just been settled upon, with four months to organise the vote. Even with everyone working at full speed it will be barely possible to meet the January 9th deadline. If it is missed, southerners will suspect that the north is trying to deny them their vote, increasing pressure for a unilateral declaration of independence, a doomsday option for the south, to be voted on by its own parliament. This could well provoke another war with the north, as Mr Bashir would refuse to recognise the new country—and many countries, especially in Africa, would side with him.

Just mess it up

The other way in which the north might disrupt the referendum is by stoking dissent and rebellion in the south to reduce the chance of what it calls a “credible” referendum. Northern leaders have been doing this for decades, using rogue groups, such as the brutal Lord’s Resistance Army that originated in neighbouring Uganda, as proxy militias to weaken the south and keep its SPLM off balance.

The SPLM says the north is already up to its old tricks again. One rogue SPLM politician, General George Athor, who alleges that an election for governor in Jonglei state was rigged against him in April, when he stood as an independent, has taken to the bush in the north of the state with hundreds of armed followers. In a recent battle, the SPLM claims to have captured a helicopter and loads of ammunition supplied to the general by the Sudanese (ie, northern) army.

In northern minds, destabilising the south and mucking up the referendum would undermine the legitimacy of any putative new country. Perhaps a new bout of trouble will persuade errant and ignorant southerners to drop their flirtation with secession and come back to the fold.

Meanwhile, the south’s own politicians are playing into northern hands by misruling and enfeebling the region on their own. Most of the huge number of willing and devoted outsiders working for international charities or the UN despair over the chronically slow pace of reconstruction over the past five years. The disbursement of foreign money to rebuild the south has been lamentably slow. But many also blame the SPLM leaders in Juba. Even among the SPLM’s usually loyal cadres frustration and criticism are growing.

Can Salva Kiir save the south?

The UN has produced a list entitled “Scary Statistics” to show how things are going wrong. “It’s as bad as bad can be,” says a senior UN official. The south still has one of the world’s highest maternal mortality and infant mortality rates. Some 85% of adults cannot read or write.

In the fields, so slender are the margins between success and failure that a single bad harvest last year almost tipped the south into famine. More than half the south’s population is on “emergency assistance”, meaning that they will need food handouts this year. Some 1.5m will face “severe food insecurity”. The south has been saved from famine only by American money pumped into the UN’s World Food Programme. And even as malnutrition has increased during the past five years of peace, the SPLM government has spent more than $6 billion of oil revenue, received under a wealth-sharing agreement with the north, not to mention hundreds of millions of dollars in aid. Where, people ask, has the money gone?

The answer is to the army—and the Juba government. The SPLM leadership spends 60% of its income on weapons and army pay, as an insurance, it is argued, against renewed hostilities with the north. Corruption has also become a problem.

The southern centre may not hold

The town of Bor, half an hour by plane down the Nile from Juba, was once a busy trading post but now feels on a different planet. Signs of progress are few. The Dr John Garang Memorial University, named in honour of the SPLM’s former leader who died in a helicopter crash in 2005, was set up in 2008. It has about 100 students and has received $3m from Juba. Some southerners educated in Kenya, Uganda and the United States during the civil war have come back to teach. Bor’s population has grown by about 70% in the last few years, as families displaced in the war have returned. Its central market does a brisk trade.

Yet only in the past year have a handful of brick buildings been built. There is still no completely paved road in Bor or in the entire state of Jonglei. In the rainy season, which can last for over half the year, getting from one side of town to the other, let alone elsewhere in the state, can become impossible. Security in Bor itself has improved, but the roads immediately to the north and south are plagued by bandits. This summer the WFP was feeding 44% of the state's population of about 500,000. Recent floods may push that figure up.

The state's governor, Kual Juuk, a former guerrilla who was once close to Mr Garang, laments that the lavish development of the centre of Juba has been at the expense of the rest of the region. This galls him since Mr Garang identified the concentration of development in Khartoum, at the expense of the neglected regions in the south and west (especially Darfur) as a prime cause of Sudan's civil wars. "The SPLM was supposed to be different, for fiscal and political decentralisation," he says. "Now we are falling into the same pit." He argues with the government in Juba but it ignores him. "They are inward-looking," he says. "It is the same attitude in Khartoum."

Such disaffection is growing dangerously. The SPLM is not a democratic outfit and barely tolerates criticism. In April's election, it sometimes resorted to bullying and intimidation to see off independent candidates. But in the south's incipient state of anarchy, these men, such as General Athor, may become rebels all over again, and head off into the bush to wage war, often backed by their own ethnic groups. Besides General Athor, another losing candidate, David Yau Yau, is at large in Jonglei with hundreds of armed followers in Pibor, in the state's east.

Such rebels will cause more instability, shut more roads and hamper development even more. They may also open up ethnic cleavages between the various southern groups, especially the Dinka and Nuer, which are the most prominent at the heart of the SPLM.

There is also a worry that some neighbouring countries do not openly support the prospect of southern independence, even though they all signed up for it under the CPA in 2005. In truth, if the south does become independent, it will need all the regional and international help it can muster. Its people's shared detestation of Arab northerners will no longer be enough to bind them together.

Middle East & Africa

The Economist

Hamas and the peace talks

Contradictory noises

It is unclear, since peace talks resumed, which tendency in Hamas is on top

Sep 23rd 2010 | GAZA

ONLY a few weeks ago, the Damascus-based leadership of the Palestinian Islamist group, Hamas, was voicing support for a negotiated two-state Israeli-Palestinian arrangement. Its prime condition was that talks be based on a Palestinian "consensus", a euphemism for including them in the diplomatic fray.

But now that American-brokered talks between Israelis and Palestinians have begun without them, Khaled Meshal, the Hamas leader, and his comrades are smarting. The Qassam Brigades, Hamas's military wing, which claims allegiance to Mr Meshal, has proclaimed a new round of violence against Israel. Though rocket fire from Gaza, which Hamas controls, remains comparatively rare, the payloads are getting heavier and have recently included phosphorus. Ahmed Jabari, the Qassam Brigades' shadowy commander in Gaza, reiterated his movement's official determination to recapture all Palestinian land from the Mediterranean to the Jordan river. In the West Bank, Hamas broke a five-year halt to attacks on civilians. Egyptian officials say Hamas has also let a group from Gaza use Sinai to launch rockets on Eilat, an Israeli resort on the border with Jordan.

That is bad news for Hamas's government, keen to safeguard its narrow strip from renewed Israeli pounding. In recent months life in Gaza has improved. Since easing the siege in June, Israel has pumped Gaza full of goods, including, for the first time in three years, cars. The IMF says Gaza's economy grew by 16% in the first half of this year, almost twice as fast as its West Bank rival, on which Western donors have lavished billions of dollars. Gaza's unemployment rate, though still among the world's highest, has fallen.

Egypt, too, has relaxed its siege, letting Gazans holiday abroad, not least in Sinai's fleshpots, for the first time in years. Palestinians visiting from outside spent the summer on Gaza's beaches, wondering what the humanitarian fuss was about. A Gazan entrepreneur has imported thousands of gardenia and other pot plants via the tunnels with Egypt to decorate the homes Gazans have begun to rebuild since Israel's assault nearly two years ago.

Keen not to jeopardise the respite, government ministers have adopted a milder stance on the Israel-Palestine talks and called for reconciliation with Hamas's rival group, Fatah. A recent half-yearly progress report by Ismail Haniyeh, Hamas's prime minister in Gaza, noted that he had sent a letter to the American administration calling for dialogue and endorsing the establishment of a Palestinian state on the territories Israel occupied in 1967. Another Hamas leader in Gaza, Mahmoud Zahar, flatly contradicted the Qassam chief, saying that Hamas was bent on liberating the West Bank and Gaza, not all of Palestine. He felt sure that Mahmoud Abbas, who presides over the Palestinian Authority that controls the West Bank, would strive for Palestinian sovereignty over East Jerusalem as vigorously as his predecessor, the late Yasser Arafat. This marks a softening of Hamas's tone towards its rivals, whom they have often vilified for talking to Israel. Might such contrary views within Hamas—the one implying a readiness to compromise with Israel, the other a determination to fight it forever—provoke a clash?

Supposedly to stiffen Gazans' resolve, the Qassam Brigades have begun to suppress the emerging good life in the strip. A squad of heavies torched Crazy Water, a new resort, in which Mr Haniyeh's economics adviser has a stake. Mr Meshal was said to have fumed at the sight of a video that showed girls and boys cavorting in the resort's pools, a far cry from the "resistance

culture" he would like to foster. The interior ministry, under another Qassam man, has made the strip's new crop of hoteliers and restaurateurs sign declarations promising to stop unmarried men and women sitting together or listening to pop music. The Beach restaurant, a favourite for secular types, including foreign aid workers, was closed for three days after police nabbed a woman smoking a water-pipe. Rumours of a round-up of collaborators with Israel, including a Hamas member of parliament, keep Gazans edgily in check. Just as the world was opening up to Gaza, Hamas hardliners are closing it down.

Their morality campaign has other motives too. Its promoters fear exclusion not only from the Israel-Palestine peace talks but also from Gaza's long-awaited reconstruction. A spate of Western-funded infrastructure projects are reviving the old merchant elite, which Hamas's new business class had sought to supplant. The renewed flow of goods via the official crossings with Israel has hit Hamas's profits from smuggling via the tunnels linking Gaza and Egypt.

Since June 2007, when the Qassam Brigades chased Mr Abbas's forces out of Gaza, the Hamas government has had a hard time confining its military wing to barracks. Now it is even harder. Gazans speak of policemen overruling the prime minister. The Egyptian government is worried about the Qassam Brigades gaining the upper hand. It has extended Egypt's state of emergency to the Gaza border, and arrested a senior Hamas commander passing through Cairo airport. In short, it is unclear which bit of Hamas is in charge or where the movement is heading.

Middle East & Africa

The Economist

Israel's religious right

That wobbly balance

Another row between the religious and the secular in Israel

Sep 23rd 2010 | JERUSALEM

JUST 42% of adult Israeli Jews define themselves as secular, according to recent official figures. The rest range from mildly to devoutly religious. And because the most religious seem to have the most children, the secular figure is likely to keep shrinking.

In this demographic and cultural scene, politics is more than ever a matter of finely calibrating a religious-secular balance. The latest effort to tip things the religious way comes from Eli Yishai, leader of the largest Orthodox party, Shas, who is minister of the interior. He wants his ministry's computers to rest on the Sabbath. Specifically, he wants to prevent people paying their bills online on a Saturday. Predictably, the strongly secular and left-wing Meretz party has tabled a bill requiring all government computers, as opposed to human civil servants, to keep humming 24/7.

The minister in charge of government efficiency, Michael Eitan of the Likud party, which has both religious and secular supporters, suggests that the computers be programmed to receive online requests from citizens on the Sabbath but to respond to them only afterthe Sabbath. What about requests from Muslim or Christian citizens? Mr Eitan has yet to offer an answer.

In a similar quest for the golden mean, several members of parliament this week urged the government to reinstate summer time until late October, in line with most of Europe and America. It was summarily ended on September 17th, at Mr Yishai's insistence. September 18th was the fast-day of Yom Kippur (observed by 69% of Israeli Jews, according to the same official statistics) and it ended an hour earlier thanks to the premature start of winter. It also began an hour earlier, but with their bellies full at that point, people were unconcerned by that, argues Shas.

A pivotal component of Binyamin Netanyahu's ruling coalition, Shas seeks its own internal balance between political moderation and extremism. Its founder and spiritual leader, Rabbi Ovadia Yosef, who celebrated his 90th birthday this week, wrote to President Hosni Mubarak of Egypt to welcome the resumption of direct Israeli-Palestinian peace talks. But Mr Yishai has since called them pointless.

Middle East & Africa

The Economist

Shia Muslims in the Gulf

Worrying times

A rise in sectarian tensions and official jitters across the region

Sep 23rd 2010 | CAIRO

Bahrain's Shias get all steamed up

FOR minorities, success is best in small doses. Too much may stir bigotry and charges of dual loyalty, or even make some within the minority dangerously impatient for change. Shias on the Arab side of the Persian Gulf have long lived with such ironies. Largely ignored through centuries under Sunni rulers, they now feel increasingly exposed.

First came the Islamic revolution of 1979 in neighbouring Iran, whose ripples frightened those rulers and emboldened their Shia subjects, leading to ugly clashes that subsided only in the 1990s. The more recent rise of Shia influence in Iraq and the success of Hizbullah, the Shia party-cum-militia in Lebanon, have caused similar waves, made stronger by Iran's bid to become the dominant—and perhaps nuclear-armed—regional power.

Conditions for Shias vary among the Gulf monarchies but had until recently been broadly improving. In relaxed and relatively liberal Kuwait, where Shias account for a third of the ultra-rich citizenry, they have long been prominent in business and in government. Some hold high office in Bahrain, too, but proportionately far fewer than their two-thirds share of the island kingdom's population.

Saudi Arabia has the largest number of Shias at 2m-odd, but they are thinly diluted in a population ten times bigger and are subject to more systematic discrimination. No Shia has become a cabinet minister or general—or even a headmistress in a state school, reflecting the Saudis' severe Wahhabism, in effect the kingdom's official doctrine. Still, in recent years the Saudi government has loosened some strictures on Shia worship and forced extremist Sunni clerics to lessen their anti-Shia vitriol.

Those gains look fragile amid a mood of rising sectarian tension across the region. In Bahrain, months of agitation by Shias campaigning for greater rights have led to growing government fears of worse to come in the event of trouble with Iran. Pressure from Saudi-aligned Sunni radicals has led to a full-scale crackdown on Shia politicking. Widespread arrests, the closure of mainstream Shia websites and newspapers, and the banning of some Shia preachers from mosque pulpits have combined to tilt much of Shia opinion into sullen hostility to the state.

Sectarian jitters

Many Bahrainis were shocked when a prominent Shia cleric, Ayatollah Hussein Mirza Najati, was ordered to be stripped of his citizenship. By contrast, Bahrain's Shias often complain that the government has secretly given citizenship to thousands of foreign Sunnis in a bid to alter the sectarian balance. Moderate Shias still counsel patience with the ruling al-Khalifa family, whose promises of reform a decade ago had quelled unrest until now. But clouds may be gathering ahead of a parliamentary election due next month.

Kuwait's authorities have grown jittery, too. Following sustained pressure from Islamist Sunni members of parliament, the emirate revoked the Kuwaiti passport of Yasser al-Habib, a Shia preacher exiled in London, whose sermons suggesting that one of Muhammad's wives had poisoned the prophet prompted widespread outrage, including condemnation by fellow Shia clerics. Alarmed by a spate of calls for Sunni protests, Kuwaiti police have banned all public meetings.

More quietly, Saudi authorities have for months been harassing local Shia campaigners, arresting dozens and holding many for weeks at a time. A ban on fatwas by independent Sunni clerics has muted public attacks on Shias, but Sunni chat-sites on the internet still describe them menacingly as a fifth column for Iran.

Middle East & Africa

The Economist

German politics

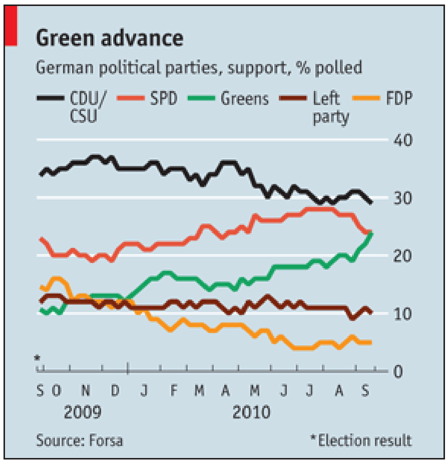
It's a rainy day, sunshine girl

Angela Merkel tries to regain the initiative

Sep 23rd 2010 | BERLIN

A YEAR ago Angela Merkel was riding high. On September 27th the German chancellor won re-election. The “grand coalition” between her conservative Christian Democratic Union (CDU) and the left-leaning Social Democratic Party (SPD) was voted out. Instead, she won the chance to lead her “dream coalition” with the liberal Free Democratic Party (FDP), which won its largest-ever share of the vote.

The honeymoon feeling is long gone. More than 80% of voters are dissatisfied with the “Christian-liberal” coalition. If elections were held today, the polls suggest the SPD and the surging Greens would oust it from government (see chart). Mrs Merkel’s personal ratings have held up better; voters prefer her to any likely rival as chancellor. But she no longer tops the popularity charts, as she did under the grand coalition. Next March a series of state elections kick off that will test her popularity and that of her government. The key contest is in Baden-Württemberg, which the CDU has governed since 1953. A loss there, which looks possible, could cause panic in Berlin. Spotting the danger, Mrs Merkel has countered with what amounts to a soft relaunch of her government.



Voters are angered by the coalition’s in-fighting and what they see as its aimlessness. The CDU and FDP have wrangled over whether to give priority to tax cuts, which the FDP wanted, or deficit cuts, as Mrs Merkel in the end demanded. The liberals have clashed noisily with the CDU’s Bavarian sister party, the Christian Social Union (CSU), over health reform. Mrs Merkel tried to defer tough decisions until after a May election in North Rhine-Westphalia, Germany’s most populous state; the CDU and FDP lost anyway. In one recent poll, 70% of respondents said it was not clear what the government wants. Nearly as many were put off by the squabbling.

There are other reasons for the unease festering within the CDU. The party has never felt entirely at home with Mrs Merkel, a Protestant woman from East Germany who pulled it to the left during the grand coalition. Now conservatives are on edge. When Thilo Sarrazin, a member of the Bundesbank’s board, published a book in August claiming

that Muslim immigrants would help bring about Germany's downfall, he exposed a gap between ordinary people, who largely agree with him, and the main parties, including the CDU, which strive for political correctness—perhaps too hard, fret some conservatives. A Berlin state legislator who had just resigned from the CDU founded a new party, "The Freedom", reviving an old nightmare of a challenge to the CDU from the right. Two weeks ago Erika Steinbach, a controversial member of the CDU's board, quit after ten years, saying, "I stand there for conservatism, but increasingly alone."

Mrs Merkel would be foolish to placate her base by swerving right. Just a quarter of voters who have defected from the CDU want it to become more conservative, notes Manfred Güllner of Forsa, a pollster. Nearly half say it should be less so. The CDU's mid-term slump is not unusual for the senior partner in the ruling coalition. More striking is the FDP's tumble, from 14.6% of the vote last September to less than 7% in the polls now.

Mrs Merkel's comeback plan relies more on action than ideology. Criticised for avoiding fights, she now promises an "autumn of decisions". She has backed an extension of the 2022 deadline for shutting nuclear power stations, as part of a broader plan to lower carbon emissions. The CDU leadership has agreed to end conscription. An €82 billion ($98 billion) four-year plan to cut the budget deficit is working its way through the Bundestag. On September 22nd the cabinet endorsed an increase in employees' contributions to the statutory health-insurance system.

To this substance Mrs Merkel has added a bit of symbolic spice. She ostentatiously backed Stuttgart 21, an unpopular rail project in Baden-Württemberg, to show that street protests should not be permitted to stop projects approved by legislatures and the courts. To please Mr Sarrazin's sympathisers without stooping to populism she attended the awarding of a press-freedom prize to a Danish cartoonist who had caricatured the Prophet Muhammad.

The substantive decisions seem riskier. Up to 100,000 people thronged Berlin on September 18th to demonstrate against the extension of the nuclear-power deadline. Most voters are against it. Support for conscription was a badge of identity for the CDU; more painful will be the closure of bases that army reforms will require. The budget cuts trim benefits for the unemployed but go easy on the rich, exposing the coalition to accusations of callousness. Few voters will thank Mrs Merkel for raising health-insurance contributions, especially when employers' costs will henceforth be capped.

Perhaps the gains are worth the political price. With conflict comes greater clarity. "Regardless of whether they agree, people want decisions" from the chancellor, says Mr Güllner. Having made a few, Mrs Merkel now seems more comfortable with the switch from a centre-left coalition to a "bourgeois" one. The nuclear decision ends her cautious flirtation with the Greens, at least for now. Cabinet ministers have recently managed to disagree without insulting each other. Germany's strong economic recovery and steady labour market should deliver a political bonus, although the grand coalition probably deserves more of the credit. Eventually, this could lift the CDU's poll numbers and put conservatives into a better mood.

The FDP's downward spiral may be harder to arrest. The party disappointed voters who looked to it to cut bureaucracy and simplify taxes. Guido Westerwelle, its leader and the government's foreign minister, is Germany's least popular politician. If the coalition delivers tax simplification next year as planned, the FDP could get a lift. Without one, Mr Westerwelle may be forced out as party chairman. The flight of voters from the FDP need not be terrible news for Mrs Merkel if enough of them flee towards her. The warning of Bavaria's premier, Horst Seehofer, is apt: "Whoever underestimates her has already lost."

Europe

The Economist

Data privacy in Germany

No pixels, please, we're German

German privacy attitudes were not designed for a digital age

Sep 23rd 2010 | BERLIN

IF IN doubt, call a summit. On September 20th Thomas de Maizière, Germany's interior minister, invited politicians, regulators and tech-company representatives to Berlin to discuss "geo-data services"—online technologies that identify the real-world location of individuals and their property. The meeting was an attempt to defuse a row that has rumbled since August, when Google announced it would launch its Street View service, an online mapping system that knits together photographs of streets and buildings, in Germany's 20 largest cities by the end of the year.

Such was the scale of the outcry in this privacy-conscious country that Google granted a unique concession, allowing homeowners to request that images of their property be pixelated (the company automatically does this to the faces of individuals). Yet this wasn't enough for some privacy advocates, who sought a blanket "opt-in" rule, meaning that Google would have to seek explicit permission from residents before publishing images of their property.

The Street View debate is just one skirmish in a wider confrontation that pits German concern for privacy rights, a powerful force in a country where folk memories of the Gestapo and Stasi are still strong, against the onward march of modern technology. The legislators who drafted the world's first data-protection law in the state of Hesse in 1970 could not have seen it coming. The ability of individuals to publish large amounts of their own data online and the systematic collection of data by private companies create "a new challenge to data protection as we know it", says Peter Schaar, the federal data-protection chief.

After the summit Mr de Maizière called on Google and other firms that publish geo-data to draw up, by December, a binding "data-protection charter" in line with Germany's restrictive privacy laws, saying that this could forestall the need for further regulation.

This approach is in keeping with Mr de Maizière's pragmatic line. He has previously warned of the dangers of knee-jerk regulation, fearing knock-on effects on unrelated areas such as private photography. By avoiding new laws, he has dodged the jurisdictional problem of regulating international internet firms—although with plans for a revised data-protection law, which will look at other aspects of online privacy, this approach may prove hard to maintain.

Yet attitudes have changed along with technology. Young Germans, like their counterparts elsewhere in the developed world, are more relaxed about sharing data online than their elders. Even as Ilse Aigner, Germany's consumer minister, railed against Facebook's privacy settings earlier this year, Germans were signing up at least as fast as other Europeans.

Although the debate is at its sharpest in Germany, tensions have surfaced elsewhere. Last week the Czech government banned Google from collecting Street View information, citing data-processing concerns. Authorities in Italy this week barred Google's Street View cars from picking up stray wi-fi data. Not all information, it seems, wants to be free.

The Economist

Sweden's election

The winner doesn't take it all

The far right emerge as the big winners in Sweden's election

Sep 23rd 2010 | STOCKHOLM

Who burst Reinfeldt's balloon?

FREDRIK REINFELDT, Sweden's prime minister, was quick to declare victory on election night on September 19th. His Moderate party, he noted, had won more votes than any other centre-right party since universal suffrage was introduced in the country early in the 20th century. But Mr Reinfeldt's victory was not as complete as he had hoped it might be. The three other parties in his centre-right coalition, known as the Alliance, all lost votes, depriving Mr Reinfeldt of his majority.

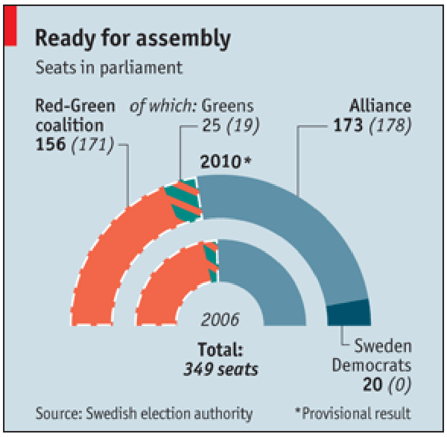
Under Swedish electoral law, a prime minister in Mr Reinfeldt's position can continue in office so long as a majority does not vote against him in the Riksdag (parliament). Since his rival for the premiership, Mona Sahlin, leader of the Social Democrats, conceded defeat early on—the party logged its worst result in almost a century—this is unlikely to happen.

That said, Sweden's convoluted system of proportional representation could yet deliver some surprises. The tallying of overseas and postal votes was not yet complete as *The Economist* went to press. Provisional figures had the Alliance within a hair's breadth of an outright majority—just 16 votes short of the two extra seats it needs. But some spoiled votes have been contested, and the legal challenges could run on until November.

Nail-biting finishes aside, the biggest story of the election was the success of the Sweden Democrats (SD), a far-right, anti-immigrant party that emerged from neo-Nazi groupings in the 1980s. An upsurge in support for the party, mainly from disaffected and unemployed rural youths, saw it enter the 349-seat Riksdag for the first time. With 20 seats, it theoretically holds the balance of power between the two main blocks (see chart).

The crude, sometimes openly racist arguments of some SD candidates during the campaign shocked mainstream Swedish opinion. Some 10,000 Swedes, of varying political hues, rallied in Stockholm to protest against the party when its success became clear. All seven other parties in the Riksdag have vowed not to rely on SD votes. But the SD, which campaigned to cut immigration by up to 90% and crack down on crime, says it is as respectable as anyone else. If Mr Reinfeldt cannot secure a reliable majority in parliament, dealing with the SD could become a big headache.

Mr Reinfeldt's first ploy was to woo the Greens. So far they have responded rather coolly, saying that their place remains in the Social Democrat-led centre-left alliance. Maria Wetterstrand, the party's co-leader, has said that she cannot support a government that "kicks sick people off health insurance, does not have a climate policy and wants to build ten new nuclear plants."



If his Green gambit fails, Mr Reinfeldt could try to inspire defections among opposition MPs, appealing to individual consciences to save Sweden from the SD. Other unlikely scenarios circulating in Stockholm this week include the creation of an "anti-party", containing MPs from all the other parties, which would always vote contrary to the SD, thereby neutralising its presence in parliament.

The political establishment's aversion to the SD is understandable given the historical pre-eminence of the Social Democrats, who have been in government in Sweden for 65 of the past 78 years. Despite humiliating defeats in the two most recent elections, the party's tolerant ethos remains a touchstone for most Swedes. Indeed, Mr Reinfeldt came to power in 2006 only by moving his Moderate party towards the centre and borrowing freely from social-democratic ideology.

Many Swedes fearful of SD influence point to neighbouring Denmark, where the anti-immigrant Danish People's Party has virtually dictated immigration policy since 2001. Perhaps it was apt that the pithiest election-night verdict was delivered by a Danish politician, Helle Thorning-Schmidt, leader of that country's Social Democratic party. "SD were the only winners," she said.

The Economist

Romanies

Home thoughts

France's expulsion of Romanies arouses mixed feelings in their home countries

Sep 23rd 2010 | BUCHAREST, PRAGUE AND SOFIA

A terrifying menace to society

FINGER-WAGGING rebukes from outsiders about the treatment of Romanies (Gypsies) in the European Union's newish eastern members may go down less well in future. In these countries a substantial slice of the public, not just the far right, feels vindicated by the deportation of thousands of jobless Romani squatters from Italy and France. These people see Romanies as an ineducable, thieving menace who need to be segregated from, not included in, mainstream society.

In Hungary the far-right Jobbik party has applauded the French move. It wants Romanies to be interned and stripped of their citizenship unless they show that they want to accept social norms. Corneliu Vadim Tudor, a Romanian far-right politician, asked mockingly why France was not sending Romanies back "to their home country, India".

Only a few politicians in the region have condemned the French action outright. Karel Schwarzenberg, the Czech foreign minister, said it smacked of racism. Hungary's government says it will make Romani issues a big part of next year's EU presidency, but gives no details. Other politicians have said, loudly, that the law must be upheld (by which they generally mean laws that end up with Romanies being prosecuted, not protected). Romania's government has not condemned the French treatment of its citizens (though parliament, belatedly, did so on September 22nd). President Traian Basescu said France should stop the expulsions but also that "gypsies" should get their children into school, not out begging. (He also complained that "Roma", the favoured term in western Europe, sounds like "Romanian").

Those who see the problem chiefly as a result of ingrained poverty, disadvantage and discrimination take a different stance. Jirina Siklova, once a leading Czech dissident, now helps prepare Romani students for university. She says France's behaviour will increase prejudice. "We were criticised for making mistakes…people can now say the pot was calling the kettle black." Katerina Copjakova, a Czech journalist who covers Romani issues, says France was right to deport wrongdoers, but it should not have stigmatised Romanies as an ethnic group. The impact is worse, she says, because of France's role as the "paragon" of liberty, equality and fraternity.

In several countries anger over double standards has sparked solidarity between Romanies and

the majority population. In Bulgaria the government has avoided criticising France publicly (for fear of jinxing its chances of joining the Schengen passport-free zone in 2011). But campaigners have been vocal. A protest outside the French embassy in Sofia attracted all ethnicities under banners reading “We are all Roma”.

The main tone is pessimistic. East Europeans recall communist-era forcible social integration. That involved compulsory adoption and transfer of children to orphanages, and in some countries forced sterilisation, as well as the plentiful provision of compulsory low-skilled jobs and the prosecution of vagrants and beggars. If those proved useless, people say, the milder measures of a democratic society stand even less chance of working. Few follow this argument to the conclusion of internment and deportation. In any case, it ignores the disastrous effect of communism on Romani livelihoods and culture. It also discounts the success stories.

A particular problem is that voters in many countries strongly oppose measures favoured by local and outside do-gooders. Proposals to end segregated education attract special ire, with arguments redolent of past busing controversies in America. Most parents want a good education for their own children, not somebody else’s. In countries where public services are poor and the criminal-justice system weak, public confidence in officialdom is already frayed. Sharing the cake fairly with a distrusted and often despised minority arouses strong feelings.

Even the strongest advocates of Romani inclusion see a long slog ahead. Ivan Ivanov, a Bulgarian human-rights lawyer who runs the European Roma Information Office, a Brussels-based legal lobby, says no European country has really made integration policies work. Political will is lacking, chiefly because devoting attention (or money) to Romani problems does not win elections. “No politician has gained anything by dealing with Roma integration,” he notes. He suggests taking responsibility away from national governments and creating a common European policy. Nice idea. Who wants to tell Mr Sarkozy?

Europe

The Economist

France's poor image

France v the world

How the Romani row has dented France's international standing

Sep 23rd 2010 | PARIS

IT WAS operation damage control this week, as the Elysée tried to revive the president's standing abroad after sharp criticism of his expulsion of Romanies. In a big speech in New York, Nicolas Sarkozy pledged to do more to combat AIDS and help Africa. He secured a cheerful photo with Angela Merkel days after a diplomatic punch-up in Brussels. Even his wife, Carla Bruni-Sarkozy, joined the charm offensive with an elegant performance, in English, on CNN.

For all the president's defiance, the French have been knocked by the response to the Romani row. Fully 71% of respondents to one poll said that they thought France's image abroad had been tainted. The low point was last week's declaration by Viviane Reding, the European justice commissioner, that she was "appalled" by the removal of an ethnic group, something she "thought Europe would not have to witness again after the second world war". Mr Sarkozy fought back in Brussels, cannily transforming himself into the victim of "outrageous" and "gravely insulting" comments, thereby distracting attention from the policy itself. But the underlying complaint (and the threat of legal proceedings against France) remains.

Standing up to the European Commission usually goes down well in France, where voters have mixed feelings about Europe and do not like being bossed about by unelected bureaucrats. So this row may yet help Mr Sarkozy at home. Although his overall popularity slipped again this month, polls suggest that voters approve of his expulsion of the illegal Romanies.

The trouble is the international damage. The French are sensitive to this. Endless television and radio talk shows pick over France's deteriorating image abroad, touching not only the Romanies but also the strike by the national football team at the World Cup this summer and the Bettencourt affair, a political-favours scandal involving Eric Woerth, the labour minister. *Le Monde* wrote of a "double debasement: of the authority of Nicolas Sarkozy and of the image of France in Europe and in the world." Dominique de Villepin, a former prime minister and rival of Mr Sarkozy, also weighed in. "Those who love France", he said, "do not recognise our country." He argues that French diplomacy is absent on the big questions, such as the Middle East peace talks, while worrying disproportionately about Romanies.

The coming months will test Mr Sarkozy's image anew. In mid-November France takes over the 12-month presidency of the G20, and in 2011 the G8 as well. Mr Sarkozy hopes to use these platforms to boost his standing abroad and his poll numbers at home, just as he did when France held the presidency of the European Union in the second half of 2008. He is not short of bold ideas, including a global financial tax, the regulation of commodity derivatives and measures to limit exchange-rate volatility. He also wants to overhaul international financial institutions and to set up a G20 secretariat.

Foreign leaders have learned to discount much of Mr Sarkozy's rhetorical excess, argues Zaki Laïdi, a political scientist at Sciences-Po. But next year is close to the 2012 presidential election. The more Mr Sarkozy shores up domestic support with a hard line on security and immigration, the more he runs the risk of renewed disapproval abroad.

Europe

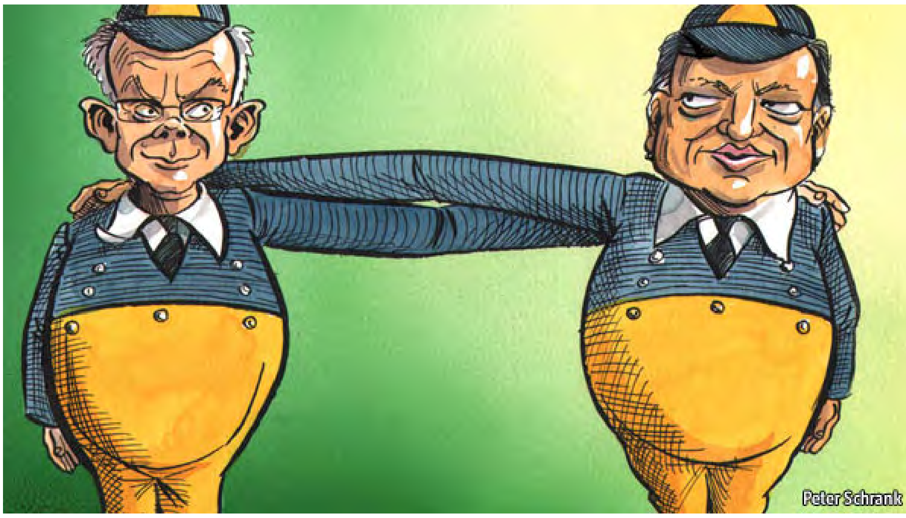
The Economist

Charlemagne

Angels and demons

The rival presidents of the European Union are vying for influence

Sep 23rd 2010



AT THE top of Rue de la Loi, the main axis of the European Union's bureaucracy, there is a sculpture that passers-by could easily miss even if they were not so busy dodging cars on the Schuman roundabout. The left side is a dark, grimy assembly of metal panels and broken mechanical parts; the right is a white stone relief of trees, rivers and happy citizens. In between a gear meshes with the petals of a flower. This vision of industrial Europe turning into a harmonious eco-union was made, say the words carved in nine languages, to mark a now-forgotten "European Year of the Environment".

Brussels insiders might detect an allegory about the European Union's split identity. On the satanic side of the road stands a pinkish lump of a building housing the Council of Ministers, representing national governments. On the angelic side gleams the curved glass of the Berlaymont, home to the European Commission, the EU's civil service and keeper of the European spirit. Brussels is more complex than this; it also involves the ever-more powerful, and stroppy, European Parliament, in its own gigantic crystal palace down the road. Yet the two sides of Rue de la Loi embody a perennial tension within the EU: the nation-state against Europe, sovereignty versus integration.

Take the spat over France's expulsion of Romanies. It is, at its core, a dispute over the commission's right to meddle in the internal affairs of a state. Or take the crisis over the euro (see article). The commission's response has been to seek more power to monitor countries' fiscal policies and penalise the spendthrift.

Last year's Lisbon treaty, promoted as a means of making the EU more efficient, has in fact made this divide permanent by creating a second figurehead for Europe. Alongside the president of the European Commission, José Manuel Barroso, there is now Herman Van Rompuy, president of the European Council. Like the double-headed eagle adopted by European emperors since Byzantine times, the EU now tries to act as one body with two heads. At global gatherings, the Portuguese Mr Barroso and the Belgian Mr Van Rompuy sit side-by-side, speaking into one microphone. At the most recent G8 summit, Mr Van Rompuy took the lead; at the G20 Mr Barroso did most of the talking. This odd double-act will go on through a series of summits with the likes of China, India, Russia and the United States. Will these countries finally take the EU seriously? Or will leaders such as Barack Obama despair of Tweedledum and Tweedledee?

There is a nervousness about both men. Mr Van Rompuy is seeking a role beyond chairing EU summits. Mr Barroso is unsure about how to adapt to his neighbour. The two presidents are too experienced to betray any ill feelings. They meet for breakfast almost weekly. Both were serving prime ministers when they were called to Brussels. Both belong to the broad centre-right European People's Party. Mr Van Rompuy insists he has no desire to encroach on Mr Barroso's authority. The commission professes to welcome Mr Van Rompuy as a man it can do business with, after the frustrations of rotating six-month EU presidencies. One commission official draws a football analogy. "Suppose you had a team with Zinedine Zidane and a load of bad players, and you then brought in Lionel Messi. Zidane would be no less important, but the team would be stronger."

Both men confront paradoxes. The commission has more authority across Europe, but is weaker in Brussels. The council is stronger, but Mr Van Rompuy must rely on the commission's big bureaucracy to get much done. Such contradictions are apparent in the debate over the euro. Mr Van Rompuy was asked to lead a task force to propose ways of strengthening economic "governance", irking Mr Barroso (and Jean-Claude Juncker, Luxembourg's prime minister, who presides over the euro group of finance ministers). Yet most measures being considered by Mr Van Rompuy were proposed by the commission. The commission worries that the task force will not press for tough enough action. It plans to publish its own proposals next week, partly to assert its right to legislative initiative.

The commission believes that, as an appointed body insulated from day-to-day political pressures, it is best placed to judge the collective interest. Had it not resisted protectionist measures in the crisis, say officials, the single market would have collapsed. One commission insider asserts that "the commission can be free of populism…democracy is not just elections but the rule of law. Courts are not elected, but they are legitimate." Even Germany, he says, "cannot say to France what we are saying to France."

Unelected but not friendless

Yet this isolation poses dangers that became clear in the row over France's Romanies. On September 14th Viviane Reding, the justice commissioner, denounced France's expulsions as a disgrace, even invoking the second world war. She predicted legal action. This may have won cheers in the European Parliament, but it went down badly in capitals. Ms Reding seemed to be prejudging her own investigation. And her overblown allusion to the Holocaust, from which Mr Barroso distanced himself, gave Nicolas Sarkozy, France's president, the means to counter-attack and rally support among his fellow leaders at an EU summit two days later.

Only one person, it is said, really stood up at the summit for the commission's right to uphold European law: a wiry man from a small, much-invaded country, Mr Van Rompuy. This should plant a thought in Mr Barroso's mind. To leave any sort of legacy, he needs to build a credible system of economic governance for the euro. Why not join forces with Mr Van Rompuy to take on those EU leaders? Mr Van Rompuy may get some of the credit, but the commission would win greater power. Even angels sometimes need the help of demons.

Economist.com/blogs/charlemagne

Europe

The Economist

The Liberal Democrats

The price of power

Dissent among Liberal Democrats does not yet threaten the coalition, but it may one day ruin their own party

Sep 23rd 2010 | LIVERPOOL

ON THE eve of his party's annual conference, which began on September 18th, Nick Clegg, the deputy prime minister, insisted that the Liberal Democrats had no future as "a sort of left-wing conscience of the Labour Party". His members don't appear to have listened to their leader.

The conference in Liverpool was the first real test of grassroots opinion since Mr Clegg took the Lib Dems into an unexpected (and, for many activists, unholy) alliance with the Conservatives after the indecisive general election in May. Not surprisingly, the public rebellions were muted. The party had already endorsed the coalition at a special conference held in May. And the taste of national power for the first time in almost a century had a funny way of pacifying anger.

But the mood of the conference was decidedly left-wing. First, delegates voted for a motion that attacked the coalition's plan for "free schools", to be set up by charities, parents and others, as iniquitous. They also expressed doubts about academies, another form of state-funded but relatively independent school. They called for a graduate tax rather than higher, market-based tuition fees to pay for universities; and they were sceptical of Britain's Trident nuclear deterrent (which the Tory-led government intends to keep).

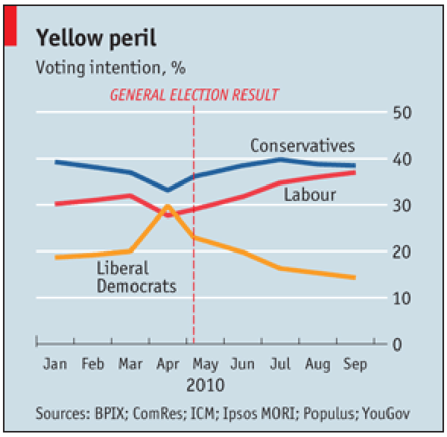
Then there were the speeches. The best-received lines in Mr Clegg's big speech on September 20th were his insistence that the Iraq war was illegal and his repudiation of selection by schools on academic criteria. A critique of capitalism by Vince Cable, the business secretary, on September 22nd also went down well (see article). Lower down the Lib Dem food chain, Tessa Munt, a newly elected MP and party whip, declared that she would be willing to resign over Trident.

Of course, there are scarier things in life and politics than a Lib Dem conference motion. And if the party were to shed a few anonymous MPs who cannot stomach life with the Tories, it would be neither surprising nor fatal to a government with a comfortable parliamentary majority. (The loss of a senior figure such as Mr Cable would be another matter.)

But the disaffection of left-leaning Lib Dems matters for several reasons. For a start, it is likely to grow. Next year's conference could be a much bolshier affair, as the cuts to public spending that the coalition now plans will have begun in earnest.

Second, from September 25th, when the result of its leadership contest is announced, the Labour Party will have a front man determined to court disgruntled Lib Dem activists. It is easy to imagine either David or Ed Miliband, the two front-runners, appealing to them in a way that the grouchier, more tribal Gordon Brown failed to do. Indeed, the closest political relatives of the Lib Dem rank and file are not liberal-minded Conservatives but Labour's soft-left: social democrats with a liberal take on crime, foreign policy and the like. With its preponderance of public-sector workers, a Lib Dem conference even feels a bit like a Labour one.

Above all, though, the disaffection matters because it extends beyond Lib Dem members to ordinary voters. Since the coalition was formed, the party's poll rating has sunk from around 23% to 14% (see chart). The lost voters appear to have migrated to Labour, which is now almost level-pegging with the Tories. It is not just the sheer scale of the defection that is worrying for Lib Dems (some of whom fear it will get much bigger); it is the potential permanence of it. Voters angered by the party's complicity in cuts that have scarcely begun are unlikely to flock back when those cuts bite. In a country unused to coalitions, even the mere symbolism of supping with the Tories may enduringly taint the Lib Dems in the eyes of many.



This popular anger is not necessarily a problem for the government. The worse Mr Clegg's party does in the polls, the more reason he has to avoid an election by preserving his partnership with the Tories. David Cameron, the Tory prime minister, spends much time and energy making sure the Lib Dems feel they are achieving at least some of their goals. It may be cannier realpolitik to let them flounder in the polls.

But the exodus could turn out to be an existential threat to the Lib Dems themselves. For much of the conference, Lib Dem ministers boasted of moderating Tory excesses while pushing through Lib Dem ideas, such as exempting some low-earners from income tax. Mr Clegg, by contrast, sees danger in trying to be anything less than full members of the government: a party that attempts to be in opposition and in government at the same time may end up looking ridiculous to voters.

Mr Clegg also knows that, if his grassroots are persuaded to back the coalition only insofar as it furthers Lib Dem interests, he may face a crisis next May. The party is likely to take a beating in local elections, especially in the northern cities it currently runs. On the same day voters might reject the alternative-vote electoral model for Westminster that will be offered to them in a referendum (holding it was part of Mr Clegg's original bargain with Mr Cameron). If they do, the coalition may seem to be delivering little for the party. The issue of Mr Clegg's leadership, briefly in doubt after the party's disappointing general-election result, could be raised. In Mr Cable, Chris Huhne, the energy secretary, and Simon Hughes, a left-wing MP, there might be no lack of challengers.

These are bleak prognostications for Mr Clegg and his party. There are other happier possible outcomes. Even a much-diminished third force could continue to hold the balance of power in a country where, because of the rise of small parties, both Labour and Tories might struggle to govern on their own. Simply by holding ministerial office for a sustained period, the Lib Dems might win over many who had assumed that voting for them would be a waste. Their sheer openness to governing in coalition could eventually be rewarded by an electorate increasingly unbound by tribal or class-based loyalties.

But the polls are grim indeed, and likely to get worse. In the early 1900s British Liberalism withered as the Labour Party emerged and the franchise was widened. A century on, even those Lib Dems most ardently in favour of the coalition must wonder whether a second "strange death" of Liberalism will be the price their party ultimately pays for power.

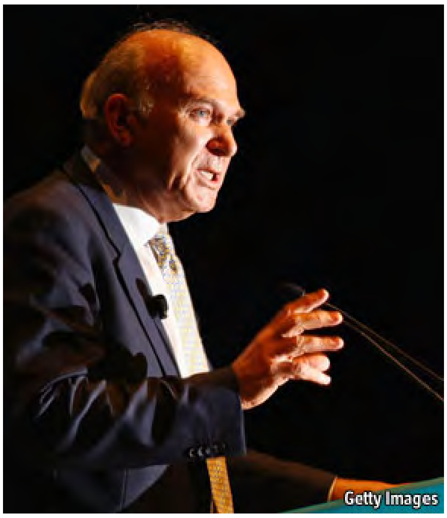
The Economist

Vince Cable

Karl Marx meets Adam Smith

Does the business secretary really hate business?

Sep 23rd 2010 | LIVERPOOL



Hammer of the spivs

FORMER chief economists of giant oil companies do not normally find themselves fighting off comparisons with Karl Marx. But Vince Cable, Britain's business secretary, who once worked for Shell, found himself in this invidious position after (and indeed before) a speech he gave at the Liberal Democrat party conference on September 22nd.

Extracts from his address were released the night before it was delivered. Headlines reported that this senior member of a Conservative-led coalition government would vow to shine a "harsh light into the murky world of corporate behaviour", declaring that capitalism "kills competition where it can."

Business leaders were duly outraged. Richard Lambert of the Confederation of British Industry, an employer's body, called the extracts "emotional", and questioned whether Mr Cable had an alternative to capitalism. Pat McFadden, Labour's business spokesman, accused him of disparaging the private sector that the economic recovery depends on. Others speculated that Mr Cable was undermining Nick Clegg, the Lib Dems' leader and deputy prime minister, or that he might be destined to quit.

Mr Cable has always had a weakness for crowd-pleasing phrases. True to form, his speech attacked the "spivs and gamblers" making "fat fees" in the City, and spoke of "good companies" being destroyed by short-term investors looking for a "speculative killing"; he denounced directors who allegedly neglect their wider duties for the sake of a cheque or two. But it was the impression that he might be launching a broad critique of capitalism itself that raised eyebrows.

Despite his own private-sector career, there are some circumstantial reasons to wonder whether Mr Cable really fits in the coalition. He began his political life in the Labour Party—though he achieved political celebrity for joking in the House of Commons about Gordon Brown's transformation as prime minister from "Stalin to Mr Bean". He has never done much to dispel the sense that he is a reluctant member of the cabinet, implying in interviews that serving in it is more of a duty than a pleasure.

However, the latest commotion appears to have involved as much incompetence as calculation. When Mr Cable delivered the full speech, it was far from a socialist call to arms, with the most incendiary passages balanced by pro-business remarks. The charge that capitalism seeks to kill competition was revealed to be a paraphrase of Adam Smith. Moreover, Mr Cable defended the coalition's plans for aggressively reducing Britain's budget deficit. His only concrete policy announcement was that Royal Mail staff would be given 10% of its shares in any future flotation.

Lib Dem insiders noted that Mr Cable's speech—in common with all the main ones at this autumn's conference—had been "cleared with the coalition": that is, with Number 10. The idea had been to soothe Lib Dem delegates and the broader British public, which is still aggrieved about the costly bank bail-outs. Most Tories are probably willing to put up with a bit of overheated rhetoric if it helps to keep the coalition together.

Senior Lib Dems also questioned the notion that Mr Cable might leave government: he is a

gloomy cove by nature, they say, but far prefers holding office to the impotence of opposition. He has never been a perfect team player: his sudden support for a “mansion tax” on expensive properties at last year’s conference alienated party colleagues.

Perhaps the biggest lesson from the furore is that the Lib Dems are still learning the ropes of government. Mr Cable’s pride in being an untethered spirit has been useful at times: he was right to complain that the government’s crude caps on non-European migrants are harming recruitment. But in a world of jumpy markets and 24-hour news, ill-disciplined spin should not be the government’s business.

Britain

The Economist

Reviewing extradition

Hand 'em over

Britain’s tough extradition laws face a shake-up

Sep 23rd 2010

EXTRADITION used to be a slow, costly and fiddly procedure that made life lucrative for lawyers and safer for wrongdoers. European integration and international terrorism have swung the pendulum the other way: Britain’s extradition regime is now widely regarded as unfairly burdensome on the innocent.

Happily, as Theresa May, the home secretary, recently announced, the government is now reviewing the system. Specifically, it will examine the European Arrest Warrant (EAW), which makes extradition to a country in the European Union that requests it all but automatic, and a bilateral extradition treaty with America. Both were incorporated into British law in 2003. Both have aroused fears that Britons can be tried abroad—where help with legal costs can be nugatory, and compensation for blunders unlikely—for offences primarily committed in their own country, or for acts not considered criminal in Britain.

The previous Labour government rigorously implemented the treaty with America, seeing it as a token of loyal Atlanticism. Critics say the deal is one-sided: American courts require extradition requests to show “probable cause”, a higher burden of proof than is needed to extradite someone from Britain. Human-rights lawyers also worry that, in America, an innocent can face a choice between admitting guilt in a plea-bargain or risking many years in jail.

British officials naturally want the pan-European system to work smoothly when they need to repatriate criminals from abroad—such as Osman Hussain, who attempted to set off a bomb in London in 2005 and was speedily extradited from Italy under an EAW. But the corollary has been a lack of scruples about sending individuals to the continent. Britain has meticulously acted on arrest warrants from Poland, often for trivial offences. (Polish prosecutors are sticklers too: they briefly arrested Akhmed Zakayev, a Chechen leader who has political asylum in Britain, at the behest of the Russian authorities.)

The combination of Britain’s tough regime and careless procedures creates mess and distress. Fair Trials International, a lobby group, has a dossier of startling cases including that of Deborah Dark, a British woman who has been hounded by an EAW. She was arrested in France in 1989 on drug charges, acquitted, but later convicted in absentia (and without knowing it) after prosecutors appealed. In 2005 France issued a warrant, leading to Ms Dark being repeatedly arrested on assorted holidays and in Britain.

There are plenty of plausible changes that the review might consider. The European directive on extradition contains both mandatory circumstances in which an EAW can always be challenged (such as the fact that a suspect is a juvenile), and other grounds that national authorities can allow if they wish. But the previous government decided not to take up the latter, which include the ability to argue that a case should properly be tried at home. The relevant clauses in the 2003 act were passed by Parliament, but never came into law because of a last-minute government manoeuvre. Reversing that would require no new laws, just a resolution passed by both houses of Parliament.

Britain

The Economist

Scooters

Three wheels good

Scooters are taking over London's pavements

Sep 23rd 2010

WITH hindsight, some strange fads marked the dawning of this millennium. There was the Y2K bug, and, for much of the year 2000, the spectacle of adults teetering about London on aluminium scooters. The craze ended swiftly: it wasn't really becoming for grown-ups to scoot down pavements, scattering pedestrians. They also looked silly. A decade on, scooters have returned to London, this time powered by children. And some surprising folk, from school heads to local councils, are keen on them.

Willingly to school

Many of the scooters in question are light three-wheelers, which even three-year-olds can ride with (alarming) confidence, and which offer a useful alternative to both bicycles (not pavement-friendly), and walking (not always popular among children). These were being imported to Britain in minuscule quantities until Anna Gibson, a former lawyer with three children of her own, spotted one in a park and began selling them from home. She and her friend Philippa Gogarty talked Micro Mobility Systems, the Swiss manufacturer, whose main interest was adult scooters, into granting them sole distribution rights in Britain.

The pair's first order from a big department store, John Lewis, in 2005, was for 600 units; despite a price tag of up to £90 ($140), their scooters are now John Lewis's bestselling toy. Last year, they sold 120,000 in Britain. They also hold distribution rights for America.

The devices and their proliferating cheaper imitations have drawbacks. At school-run times, some London pavements resemble racing tracks, as tiny speedsters weave and zoom. Parents subjected to intense nagging may not be altogether grateful to Mrs Gibson and Mrs Gogarty. But the benign impact on traffic and carbon emissions may offset such annoyances.

At Oxford Gardens, a diverse primary school in the inner-London borough of Kensington and Chelsea, the number of scooting pupils has risen from fewer than one in 100 in 2005 to almost one in seven—while the proportion of children arriving by car has fallen from 20% to 16%. Half a dozen schools in the borough report scooter-commuting rates of over 30%. Transport for London (TfL), the capital's transport overseer, is to begin collecting separate data on scooter use (it was previously bundled together with walking), to check whether scooters are replacing car journeys or other sorts.

The machines may also have a role in chivvying along reluctant pupils. Oxford Gardens won praise from TfL for its "Scooter Scoop" programme, aimed at children with poor attendance records or bad timekeeping. The school loans such pupils scooters, then sends teaching assistants (on adult scooters) to gather them into convoys in the mornings. When the children and the scooters have assembled, they trundle to school.

Britain

The Economist

The future of Lloyds

Stuff happened

Lloyds looks for a new chief executive, and hopes for a stay of execution

Sep 23rd 2010

ERIC DANIELS, the American who announced on September 20th that he will retire as chief executive of Lloyds Banking Group next year, is an affable man. But it is fair to say that when he steps down—a surprisingly long time after several others who led Britain's banks when the financial crisis struck—his legacy will be deeply contentious.

By one account, Mr Daniels took a cautious path for five years, before exploiting the crisis to pick up HBOS, a troubled mortgage lender, in a deal that left Lloyds as the world's largest bank by loans at the end of last year. By another, when Mr Daniels bought HBOS in September 2008, he blew years of hard work. The purchase quickly led to an emergency bail-out: the state now owns 41% of Lloyds. And it created a firm that is so big, so undiversified and so dependent on borrowing, his critics argue, that it should be broken up again. "Lloyds", predicts the boss of another big British bank, "won't exist in a decade."

Judging how Lloyds would have fared had it steered clear of HBOS is tricky. Mr Daniels says the bank would still have needed to boost its capital during late 2008, which would have been hard without state support. And the deal has begun to look better than once feared. Lloyds paid about £8 billion for HBOS, which, in early 2009, looked as if it might be worth next to nothing. But with cost savings of £2 billion a year anticipated by the firm, and bad-debt charges falling, the outlook is improving. In the long run the transaction will generate "excellent" returns for shareholders, reckons Mr Daniels. Another senior retail banker is upbeat too, saying the underlying logic of creating a giant retail bank is sound.

But Lloyds' size is exactly what worries others. Antitrust rules were waived to allow it to buy HBOS: after taking into account the impending modest disposals required by Europe's competition watchdog, the combined firm will have between a fifth and a quarter of Britain's markets for mortgages, credit cards, personal loans, current accounts and small-business loans. The banking commission set up by the government to examine the industry's future is sure to take a close interest.

If, as seems possible, the government tries to sell its shares in Lloyds soon (they are now trading slightly above the average price the previous government paid), competition authorities will have to reveal whether they intend to revisit the deal. Lloyds defends itself by arguing that fragmented banking systems can be unstable, and that highly concentrated regimes such as Canada's and Australia's have actually proven safer. Mr Daniels says that being so big creates economies of scale that can be passed on to customers. Britons, he says, "get good value" from their banks.

If some regulators are eyeing its market share, financial supervisors are scrutinising Lloyds' limited deposits (it ranked only 16th in the world on this measure at the end of last year). This means it relies on borrowing markets, which dried up during the crisis, forcing the state to step in. At 146%, Lloyds' ratio of loans to deposits is still more risky than the other big banks'. Mr Daniels insists that as markets normalise the bank will be able to finance itself at a reasonable cost; but many regulators and competitors find Lloyds' borrowing levels otherworldly.

There is no easy solution to the funding conundrum Mr Daniels will bequeath. Forcing Lloyds to shrink would hurt lending, while breaking it up would not make the overall funding gap any smaller. Lloyds is "still a work in progress" says Mr Daniels. Everyone can agree with that.

The Economist

Regeneration and cuts

One in the eye

Cuts may stall the regeneration of a feisty coastal town

Sep 23rd 2010 | HASTINGS

Photolibrary

NOT long ago Hastings, hitherto best known as the site of a battle in 1066, broke a world record: 6,166 people dressed as pirates gathered on its pebbly beach, handsomely beating the previous record for mass piracy (held by Germans). The town is desperate to publicise itself, however frivolously. It puts on a seafood-and-wine festival in September and a Morris-dancing shindig in May. This verve has helped it begin to recover from a long slump—though whether it can sustain the upswing in the era of public-spending cuts is doubtful.

A century ago Hastings was a watering-hole for London's rich. Like other seaside towns, it was hit by the advent of mass air travel; Brighton and Eastbourne, its more genteel neighbours, have reinvented themselves, but Hastings stagnated. From the late 1980s its grand Victorian houses were increasingly occupied by benefit claimants and asylum-seekers.

But since 2002 the state has been sending it regeneration funds as well as people. Sea Space, the local regeneration agency, has built high-grade office blocks, a business centre, a railway station and a college. Meanwhile, a £10m waterfront art gallery, part-sponsored by the Jerwood Foundation, is due to open next year (despite opposition from local conservationists). Drunken youths still gather in the town centre at dusk, and raucous music belches from amusement parlours along the seafront, mingling with the aroma of fish and chips. But Hastings seems to be pulling out of its doldrums.

Unfortunately, it is acutely vulnerable to the forthcoming spending squeeze. The public sector accounts for 43% of employment. There are new clusters of media and engineering firms, but the overall rate of business creation is among the lowest in the country. Jeremy Birch, the Labour leader of the borough council (and a Samuel Beckett lookalike), says the investment Hastings needs most is a mooted new road to link it to nearby Bexhill, which would reduce onward journey times to Brighton and London. Yet at an estimated cost of £96m, the project seems likely to stall.

Sea Space itself is partly owned by one of the Regional Development Agencies that the government is scrapping. Like other towns that have benefited from public largesse, Hastings will have to rely on its own ingenuity if it is to regain its former glory.

The Economist

Welfare spending

Pistols at dawn

A bitter battle is being waged over how to cut the welfare bill

Sep 23rd 2010

IN LESS than a month the coalition government will meet its second day of destiny. The first was the budget on June 22nd, when George Osborne, the chancellor of the exchequer (top right), set out a startling plan to slash public expenditure, starting with small decreases this year that will reach £83 billion, worth 4.6% of GDP, in 2014-15. The second is the spending review on October 20th, when Mr Osborne will reveal where the axe will fall. Since welfare is the biggest component of public spending, making up £194 billion or 28% of the total this year, cuts to the welfare budget are essential. But they have prompted a running duel at the heart of government.

The in-fighting is not between the Conservatives and Liberal Democrats but between Tories. Mr Osborne is clashing with Iain Duncan Smith, the work and pensions secretary (bottom right), whose department is responsible for most welfare spending. The chancellor himself controls child benefit and tax credits, costing £36 billion this year. That gives him a handy extra weapon—if he chooses to use it.

The duel is especially bitter because, after the humiliating loss of his job as Tory leader in 2003, "IDS" rebuilt his political career by dedicating himself to the cause of mending what he calls Britain's "broken society". Overcoming worklessness and poverty is central to his self-selected mission. Now in office, he wants to push through sweeping but initially costly reforms that he hopes will get more people into jobs. Meanwhile Mr Osborne's success or otherwise in cutting Britain's fiscal deficit is likely to define his political career.

But the clash between the two men is more than a bilateral scrap. Virtually every other minister has a stake in its outcome, since the bigger the cuts in welfare, the less other spending departments will need to be squeezed. In his June budget, Mr Osborne identified welfare savings rising to £11 billion by 2014-15. But he made clear that he intended to come back for more.

In effect, the chancellor posed a stark choice for his colleagues. The government has exempted the National Health Service, the second biggest public spender (accounting for 18% of the total), from real cuts. It has also pledged to continue raising Britain's small overseas-aid budget as a share of national income. If the welfare cuts are limited to £11 billion, the other departments, responsible for an array of services including education, defence, transport and policing, face an average real reduction of 25% by 2014-15. But if, say, an extra £14 billion could be stripped out of welfare, that figure would be 20%, according to the Institute for Fiscal Studies, a think-tank.

Yet while Mr Osborne and other ministers crave more welfare savings, Mr Duncan Smith is no less determined to overhaul the benefits system so that the jobless find it more worthwhile to take a (typically) low-paid job. The snag is that his preferred method—allowing them to retain more of their benefits after they find work—will be expensive.

After tense haggling a deal seemed to have been struck over the summer. Mr Duncan Smith could have his reform, at a cost of £3 billion a year, provided that, as well as the £11 billion of welfare cuts already announced, his department contributed £10 billion of net savings in 2014-15.

If the deal sticks (and nothing is yet certain), it will ease the pressure on the unprotected public services. But that pain will be transferred to the welfare budget. The politics of finding the extra savings will be no less excruciating—and the Treasury may end up having to contribute, by making further reductions in its own handouts.

The welfare bill may seem huge, but much of it is in effect inviolate. For example, pensions account for over a third of the total. Most of this goes on the basic state pension, paid to 12.5m people this year. The number of retirees is rising fast; meanwhile the pension is being boosted by the restoration of the link between it and average earnings. Since pay usually rises more than prices, this will add to costs, which have been held down for three decades by the pension being tied to prices.

The most obvious benefits to cut are the universal ones, often described as “middle-class welfare”. Child benefit, for example, goes to all parents no matter how well-heeled they are. Similarly, everyone over the age of 60 (rising gradually from this April to 65 by 2020) receives winter-fuel payments and can travel free on buses. If child benefit were means-tested and the pensioner freebies were scrapped, the government could save close to £10 billion.

The trouble is that such drastic reforms (in which cuts by the Treasury would exceed those by Mr Duncan Smith’s department) would involve some embarrassing jettisoning of pre-election promises. David Cameron pledged to protect winter-fuel payments—costing £2.7 billion this year—in the last television debate between the party leaders. Mr Osborne, for his part, told the Tory party conference a year ago: “We will preserve child benefit, winter fuel payments and free TV licences.”

Make my day, punk

Hemmed in by these commitments, the government is likely to make only modest reductions to universal benefits. One way out of the bind would be to tighten age restrictions. Child benefit could be limited to parents with younger children. The age at which winter-fuel payments are paid could rise to 65 or higher.

But if middle-class welfare is merely trimmed, that will mean bigger cuts for the 5m working-age people living on benefit. Quite how deep those will be is the subject of further feuding between Mr Osborne and Mr Duncan Smith. The chancellor wants to extract “several billions of pounds” (reportedly an annual £4 billion) of savings from this group; Mr Duncan Smith has told MPs that he did not “recognise” the £4 billion figure, a favoured ministerial code for dismissing a disputed claim.

One way or another, the welfare bill must be brutally slashed. Both Mr Osborne and Mr Duncan Smith may end up feeling aggrieved over the final outcome. The internal feuding over cuts is proving almost as sharp as the cuts themselves may be.

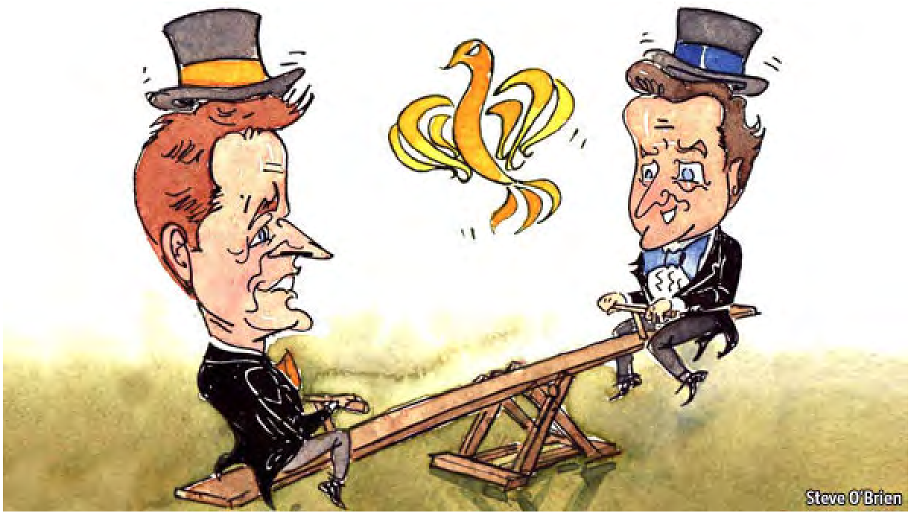
The Economist

Bagehot

Playground politics

Nick Clegg is not a traitor to his party. But he is a different sort of liberal to most of its members

Sep 23rd 2010



SOME years ago, when Bagehot was living in Beijing, he watched workmen install a puzzling machine in his local park. It was a playground seesaw, but with only one seat. At the other end sat a winsome, child-sized fibreglass animal: the whole contraption was motorised. Belatedly, the penny dropped. This was a seesaw for a country with a one-child policy. After a few days at the Liberal Democrats' conference in Liverpool, while pondering the party's oddly tribal views of coalition politics—and the contrasting attitude of its leader—memories of that Chinese playground resurfaced.

Like all political parties (and most human beings), the Lib Dems cherish a series of myths about themselves. One is that they are radical pluralists, with a grown-up, rather European sense of the possibilities of multiparty politics. This, members believe, is one of the many things that makes Lib Dems better people than the jingoistic careerists who infest Britain's two largest parties. Alas, this happy tale is only partly true.

Until May's general election, it never occurred to many Lib Dems that they could end up joining a coalition government with the Conservatives. In their minds, Labour was firmly bolted in place as their sole potential coalition partner. The only question was whether British voters would produce an election result so finely balanced that the Lib Dems could scramble aboard the Labour coalition seesaw and play.

Nick Clegg, the party's leader and the deputy prime minister, is different, and his followers know it. "The party doesn't trust him," says one senior figure who has known Mr Clegg for years. Mr Clegg is a free-market liberal who would fit happily into the liberal traditions of Dutch politics: whereas the left of his party still looks to the state to deliver improvements, Mr Clegg is among those who suspect that a top-down state is a wasteful provider of services, let alone social change. And remember, says another grandee, Mr Clegg "didn't grow up with the party": not for him years of doorstep canvassing on wet weekends, or drudgery on a local council. Elected to the European Parliament in 1999, he moved to the House of Commons in 2005, and narrowly won the party leadership two years later.

Before his single term as an MEP Mr Clegg worked at the European Commission (for a British

Conservative EU commissioner, Sir Leon Brittan). Mr Clegg was very much a Brussels type: nifty on skis, suavely multilingual with a Dutch mother, a Spanish wife and a degree from the College of Europe, an elite nursery for Eurocrats. And yet, to his credit, he did not relish life in the stultifying European Parliament as some Lib Dems seem to. He triggered open-mouthed horror at one Strasbourg dinner, at which MEPs were discussing the wickedness of British opt-outs from the European Working Time Directive, a meddlesome tool for limiting overtime. Oh come off it, Mr Clegg said, what on earth is Europe doing regulating working hours in Britain?

It would be easy to cast Mr Clegg as a younger, Lib Dem version of Tony Blair: an expensively educated, cosmopolitan smoothie to the right of his party. And it would be easy to see his relationship with his party, and the fundamental tension in it, as broadly the same as Mr Blair's: ie, that it tolerates him because he has allowed it to taste power after decades in the wilderness. But Mr Clegg is harder to pin down than that.

Even his friends sometimes seem to be describing two different men. Paddy Ashdown, a former Lib Dem leader, spent years plotting a "progressive alliance" between his party and Labour. In Liverpool this week Lord Ashdown hailed Mr Clegg for realising that a coalition with David Cameron was another way of achieving his dream, namely making the Lib Dems "the dominant party of the centre-left". Among Tory fans, in contrast, Mr Clegg is hailed as a man whose destiny is to re-draw the political map on the centre-right. Politicians close to the prime minister gush about how a shotgun marriage has blossomed into true romance, with Mr Clegg and Mr Cameron learning that they have more in common every day.

In fact, the idea of Mr Clegg as a map re-drawer is part of what makes some Lib Dems sceptical about him. Earlier this month, Nick Boles, a new Tory MP and kite-flying outrider for the modernising camp, called for the two parties to forge an electoral pact at the next election. Lib Dems were appalled by Mr Boles's offer, however kindly meant: the party is so frightened of losing its independence under Mr Clegg that such a pact would "kill" him, says a senior member.

Playing nicely

But it may be a mistake to think of Mr Clegg merely as a force for realigning Britain's existing party landscape. Instead, his hope may be to transform the way British voters—including Lib Dem voters—think about politics itself. Mr Clegg has seen how coalitions work abroad. He wants British voters to see multiparty rule as effective, not weak, and to see the Liberal Democrats as a sober party of government. In his conference speech he reminded anxious party members that Lib Dems are supposed to be pluralists, who believe that when bold political decisions loom, "two heads are usually better than one". If he had rejected the Tory coalition offer, how could Lib Dems "ever again have asked the voters to take us seriously?"

In Liverpool the Lib Dems responded politely, but without wild enthusiasm. They know Britain is not about to adopt proportional representation, the voting system that underpins continental coalitions. What is more, like Chinese seesaw designers, lots of them still see politics as a game with a predetermined partner. That partner is not Mr Cameron. Mr Clegg's vision is admirably non-tribal. It is also an astonishing risk.

Economist.com/blogs/bagehot

Britain

The Economist

Betting on sport

The agony of influence

Paying players more would keep gamblers and match-fixers at bay

Sep 23rd 2010 | ATLANTA

THE lengthening shadow cast by illegal betting syndicates over international sport has one curious exception: America. That is surprising, given that Americans are ardent betters on sport and, as with soccer and cricket, sportsmen there are often youths from lowly backgrounds.

In 2009 punters bet almost $2.6 billion on sports in Nevada's casinos (apart from a handful of sport-related lotteries, it is the only state in which such wagers are legal). Such legal betting is only a small fraction of the total. As with cricket and soccer, not all bets are strictly on games' outcomes: "exotic" wagers (variously known as prop, side or spot bets) on passages of play or specific occurrences are widely placed.

These have become a feature of betting on the Super Bowl, the climax of the American football season, which attracts more wagers than any other American sporting event. For February's game online bookies offered odds on anything from total points, to who would score the first touchdown, to what colour Gatorade would be dumped on the winning head coach (it was orange, offered at four-to-one). Those are just the sort of oddities that are most easily manipulated by outsiders.

Then there are all those young men from humble backgrounds. Many say that explains the latest, long-running scandal concerning Pakistan's cricket team, now touring England. Some of its members are accused of conniving with bookmakers, if not to lose matches then at least to instigate specific events in the game. They and their officials deny that. A senior Pakistani has now cited unsourced rumours that the English team may have deliberately lost a recent game. The players furiously reject this. English fans say wearily that their side is quite capable of collapse without any outside incentive.

Exposing young players to sudden wealth and temptation is seen as a prime cause of corruption in both cricket and soccer. It particularly afflicts minor matches between lesser sides and from poorer countries. Largely unnoticed elsewhere, these can attract huge interest from gamblers, especially in Asia. In Bahrain earlier this month, a football team purporting to be from Togo turned up for a friendly match, which they lost 3-0. But the Togolese authorities now say the fixture was nothing to do with them. Some suspect that the event (and result) were staged on behalf of people placing insider bets.

So how and why is America different? One reason may be that foreign gambling syndicates are less interested in baseball and American football (scandals are rife in tennis). Another is that gambling-influenced corruption in sport has made Americans aware of its dangers. It used to be endemic in baseball in particular. Henry Chadwick, a writer known as the “father of baseball statistics”, declared in 1870 that “we claim to rank among our enemies…every professional gambler who aims to make rival clubs his tools”. The sport’s most infamous match-fixing scandal happened in 1919, when eight members of the Chicago White Sox were accused of taking bribes to throw the World Series. Heavily favoured, the “Black Sox” lost to the Cincinnati Reds. Two years later the eight players were banned from the sport for life, despite having been acquitted by a jury.

Turning black to white

That ban came at the hands of Kenesaw Mountain Landis, a federal judge whom baseball’s owners hired as the sport’s first commissioner to restore the game’s integrity in the wake of the scandal. Since then, even minor infringements have attracted heavy sanctions. For placing bets on his own team in the 1980s, Pete Rose, a record-breaking hitter, remains outside the Hall of Fame (and cannot even set foot in a major league ground).

American sports’ governing bodies tend to regard all gambling with disapproval. David Stern, who heads the National Basketball Association, says cautiously that legal betting on his sport “may be a huge opportunity”. He is an exception. Most other sporting big shots are less enthusiastic. The National Football League would rather not have any gambling at all, says Brian McCarthy, a spokesman. When Delaware tried amending its laws to allow sports betting, the NFL was strongly opposed. The league makes a strong anti-gambling pitch to new players, as does the National Collegiate Athletic Association, another oversight body. Violations are now rare. The NFL suspended two players for placing bets on games in 1963 and one for similar reasons in the 1980s.

That kind of tough stance is urgently needed in soccer and cricket, says Declan Hill, a specialist on the influence of gambling syndicates on sport. His research has involved clandestine recordings of matchfixers, and detailed statistical analysis of anomalous events and results. He describes corruption as a “tsunami” that has wrecked most Asian football leagues, and is now perverting European soccer.

Place your bets please

He wants the gambling industry to finance an independent, international anti-corruption agency to collect information and conduct investigations, on the lines of the existing body that deals with doping in sport. Each national football association should set up independent integrity units, he says, with hotlines for players to report approaches and threats by match-fixers.

Tougher policing has certainly worked in America. But another reason is money. None of the eight “Black Sox” made more than $6,000 a year, and three made less than $3,000. In 2009 dollars that would be around $74,000 and $37,000 respectively. In 2009 the average major-league baseball salary was $3m—more than ten times the amount allegedly paid to corrupt three Pakistani cricketers playing against England. The highest-profile recent instance of corruption in American sports featured a low-paid basketball referee. Statistical analysis of college basketball also shows highly unlikely patterns of scoring.

American football and baseball players may not be more honest than their predecessors or counterparts. But at today’s prices, few can afford to tempt them.

International

The Economist

Indoor pollution

Silent and deadly

Smoke from cooking stoves kills poor people

Sep 23rd 2010 | NEW YORK

Over to you, Hillary

AFTER vaccines and bed nets, could the humble cooking stove be the next big idea to save millions of lives in poor countries? Hillary Clinton, America's secretary of state, hopes so. She was marking the launch on September 21st of a new alliance that aims to raise $250m to supply clean stoves to 100m poor households by 2020. It is headed by the United Nations Foundation, a charity. Among its backers are governments (chiefly America, which has put up an initial $50m), charities (the Shell Foundation) and private firms (Morgan Stanley, an investment bank).

Around two billion people have no access to modern energy, and a billion have it only sporadically. The smoky stoves that many of them use, the World Health Organisation reckons, produce particulate pollution that causes around 2m premature deaths a year. Makeshift cookers also catch fire easily, maiming and killing. And lives are not the only things wasted. Women and girls in rural villages lose time and energy walking around collecting dirty solid fuels, ranging from crop waste to cow dung (better used as fertiliser).

The appeal of a stove that produces more heat, more cleanly and with less fuel is clear. But Kirk Smith, a stove specialist at the University of California at Berkeley, points out that most efforts to promote cleaner stoves have flopped. Too much emphasis has gone on technology and talking to people at the top, too little to consulting the women who actually do the cooking. When subsidies run out, the schemes have faltered, with stoves left unused or broken.

Why might it be different this time? Wouter Deelder of Dalberg, a development consultancy, says that stoves have improved in everything from the materials used to the design of chimneys. Even so, the new stoves can cost $30 or more. Greater efficiency means they pay for themselves in a few months, but the price is still prohibitive for people living on a few dollars a week. Moreover, technology that works well in the laboratory may fail in the field, where fuels, cooking practices and even the shapes of vessels vary widely.

Last month the Indian government and the X Prize Foundation, a charity that organises incentive prizes, launched a global competition to develop a cheap, clean-burning stove. Gauri Singh of the Indian renewable energy ministry says she wants a stove with a “high-tech heart” that can be tweaked for local conditions.

Another lesson of past failures, says Daniel Kammen, who runs the World Bank's clean-energy programmes, is the need for better data about how stoves are actually used. That is increasingly possible, because cheap sensors can be embedded in stoves. At Berkeley, Mr Smith's team is working with Vodafone, a mobile-phone company, on a wireless gadget that allows researchers on motorcycles to download the data from stoves. Some in the alliance also hope to tap the money available to curb greenhouse-gas emissions.

But the best reason for hope may lie in the new-found awareness of market forces among governments and the UN crowd. Pressed on this point, Mrs Clinton says emphatically that the new stoves "must not be given away". As with anti malarial bed nets, she argues, charging a little makes people value and use them properly.

That will come as good news to the small army of entrepreneurs in the developing world now coming up with novel business models to sell and service the cooking stoves. One such innovator is Suraj Wahab of Toyola, a start-up selling some 60,000 stoves a year in Ghana by offering micro-credit. His advice to the new UN coalition is "please don't offer handouts and don't give away stoves."

International

The Economist

A special report on forests

Seeing the wood

Purveyors of water, consumers of carbon, treasure-houses of species, the world's forests are ecological miracles. They must not be allowed to vanish, says James Astill

Sep 23rd 2010

DAYBREAK is a heavenly time to look on the Amazonian canopy. From a Brazilian research tower high above it, a fuzzy grey sylvan view emerges from the thinning gloom, vastly undulating, more granular than a cloud. It is mind-bendingly beautiful. Chirruping and squawking, a few early risers—collared puffbirds, chestnut-rumped woodcreepers and the tautologous curve-billed scythebill—open up for the planet's biggest avian choir.

In a slick of molten gold, dawn breaks and the trees awaken. In every leaf, chlorophyll molecules are seizing the day for photosynthesis. Using sunlight to ship electrons, they split water molecules and combine the resulting hydrogen with carbon dioxide extracted from the air. This produces carbohydrates that the trees turn into sugars, to be burnt off in respiration or, by another chemical process, turned into new plant-matter. The main waste product, oxygen, they emit through their stomata in a watery belch. Hence the rainforest's high level of humidity, visible from the observation tower in diaphanous cloudlets drifting over the canopy.

That plants emit oxygen has long been known—since 1774, in fact, when Joseph Priestley, a British chemist, found a mouse not too "inconvenienced" by being trapped inside a bell-jar with a mint plant. Yet the importance of plants' ability to store carbon in making the planet habitable is still not widely appreciated. On two previous occasions when the atmosphere contained very high levels of carbon dioxide, the early Carboniferous and Cretaceous periods, beginning about 350m and 150m years ago respectively, they were reduced by the expansion of carbon-sequestering plants. Industrial burning of the fossil fuels laid down in the Carboniferous period, in the form of decaying plant-matter, is the main reason why there is now more carbon in the atmosphere than there has been for 4m years.

Carbon calculations

This is the latest reason—and it is a big one—why destroying forests is a bad idea. Roughly half the dry weight of a tree is made up of stored carbon, most of which is released when the tree rots or is burned. For at least the past 10,000 years man has been contributing to this process by hacking and burning forests to make way for agriculture. About half the Earth's original forest

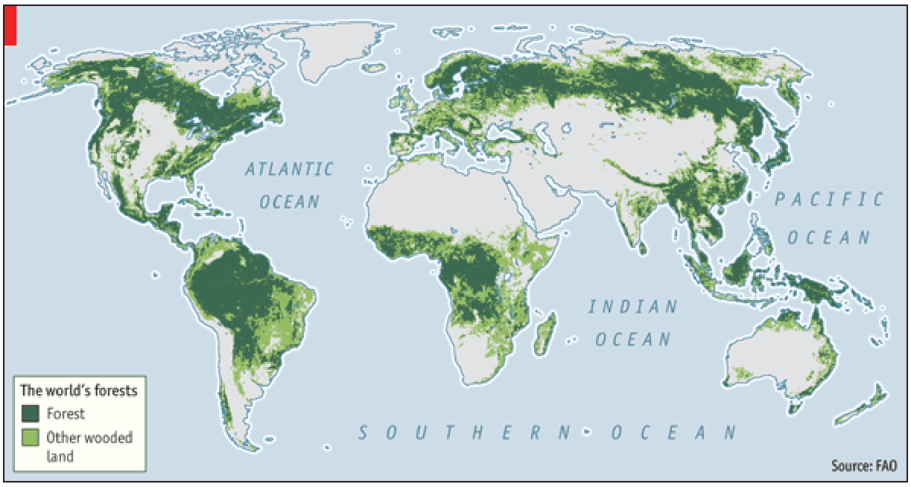
area has been cleared. Until the 1960s, by one estimate, changes in land use, which mostly means deforestation, accounted for most historic man-made emissions. And its contribution to emissions is still large: say 15-17% of the total, more than the share of all the world's ships, cars, trains and planes.

But this underestimates the damage done by the clearance. It also discounts a geological-time-honoured way to sequester carbon. That growing forests, natural or planted, do this is obvious. But there is increasing evidence to suggest that primary, or old-growth, forests are seizing the opportunity of a carbon-heavy atmosphere to suck up more carbon than they did previously, a process known as "carbon fertilisation". By one estimate the Amazon rainforest is sequestering an additional 1.3 gigatonnes a year, roughly matching the recent annual emissions produced by clearing it. Across the world, forests and the soil beneath them absorb about a quarter of all carbon emissions.

This is an indispensable contribution to life as we know it, and forests offer many others, too. They house more than half the world's species of animals, birds and insects. In the Amazon rainforest this biodiversity is staggering: even its small gullies and runnels often have unique sub-species of monkeys, birds, creatures of all kinds. Forests are also the source of most staple foods and many modern medicines. They provide livelihoods, wholly or partly, for about 400m of the world's poorest people. They have always touched the imaginations of more privileged ones: "A culture is no better than its woods," wrote W.H. Auden. Indeed, the more that people learn about forests, the more perilous their mismanagement seems.

They also make rain

That forests regulate water run-off, mitigating risks of flooding and drought, has been recognised since ancient times. The ancients also understood that trees can increase rainfall and deforestation can reduce it. Cutting down trees leads to a reduction in evapotranspiration, which results in less downwind precipitation. In the case of the Amazon rainforest this has huge implications for the agriculture of the whole of the Americas. That of southern Brazil, northern Argentina and Paraguay, in particular, depends for rainfall on the moist Atlantic trade winds, which cross the Amazon basin and then are deflected southwards by the Andes. There are also indications that the American Midwest is watered from the same source, by the moisture deflected northwards. The forest, by recycling the water that falls on it through evapotranspiration, plays an important part in this system.



Between a quarter and half of the water molecules that fall in the western Amazon have previously fallen on the rainforest. In its absence, it would be reasonable to expect a corresponding decrease in regional precipitation, which would be calamitous, but the actual effect could be much worse. Two Russian physicists, Victor Gorshkov and Anastassia Makarieva, claim that forests, not temperature, are the main drivers of winds. They base this on the previously unconsidered drop in pressure that occurs when water passes from gas to liquid state in

condensation. So ecosystems that maintain a moist atmosphere—as rainforest does—draw in air and moisture from elsewhere. This could explain the curious fact that precipitation in the western Amazon is higher than it is upwind, despite leakage in run-off at every revolution of the local water cycle.

The theory caused a stir in Western academia last year when it was put forward in the journal *Biosphere* and is considered far-fetched by many. But it should reinforce the point that, on hydrological grounds alone, conserving forest is often essential.

And still they are being chopped down. According to the main compiler of forest data, the UN's Food and Agriculture Organisation, about 4 billion hectares (10 billion acres) of forest remain, covering 31% of the Earth's land surface. Only a third is primary. Much of the rest is seriously degraded: the FAO's definition of a forest takes in areas with as little as 10% tree cover.

Almost half of the forest that remains is in the tropics, mostly as rainforest which, by almost any measure, is most precious of all. Nearly a third of that rainforest is in Brazil, which has two–thirds of the Amazon basin; and a fifth is in Congo and Indonesia. The second-biggest forest area, about a third of the total, is in the boreal, or *taiga*, biome: a belt of spruce, birch, fir and aspen that encircles the far northern hemisphere, mostly in Russia, Scandinavia, Finland, Canada and a small part of America. Just 11% of forest is in the temperate zone, dominated by America, which cleared almost half its massive forests in the 19th century, and Europe and China, which ate into theirs much earlier. Europe razed almost half its temperate oak-, beech- and birch-woods in the Middle Ages, an onslaught only briefly reversed by an outbreak of bubonic plague in the 14th century. Now temperate forests are creeping back. Over 7m hectares a year are currently being planted or allowed to regrow, according to the FAO, mostly in China and America.

A tropical problem

The current onslaught is mainly in the tropics. In the past six decades the rainforest has been reduced by over 60% and two-thirds of what remains is fragmented, which makes it even more liable to be cleared. And despite many campaigns by NGOs, vigils and rock concerts for the rainforest and efforts to buy it, lease it, log it and not log it, the destruction proceeds at a furious clip. In the past decade, the FAO records, around 13m hectares of the world's forests, an area the size of England, have been lost each year. Most of this was tropical forest, razed for agriculture. But Russia, which has more forest than any other country, also lost a lot, which the FAO's figures do not capture because its clearance did not involve a permanent change in land use. Between 2000 and 2005 some 144,000 sq km (55,500 square miles) of Russian forest—14% of the total—was incinerated or felled, much of it illegally.

This represents progress, of a sort. In the 1990s, when the candle-holding for the rainforest was at its height, over 16m hectares a year was lost. Most of the slowdown is because of reduced rates of clearance in the world's biggest deforesters, Brazil and Indonesia, and to some degree this reflects their former gluttony: both have masses of cleared land to spare. But in both countries efforts to reduce the destruction have also helped, especially in Brazil, which has a fast-growing agricultural sector and is increasingly worried about deforestation. Over the past decade it has given protected status to 500,000 sq km of the Amazon rainforest. According to a recent report by the Royal Institute of International Affairs, a British think-tank, illegal logging has been greatly reduced in Brazil, Indonesia and Cameroon.

A few smaller rainforest countries are also showing more regard for their trees. Costa Rica, which in the late 1980s lost around 4% of its forest each year, has reduced its deforestation almost to zero. Gabon and Guyana, almost three-quarters of which are covered by trees, say that, with foreign help, they would be happy to keep it that way. Western consumers, increasingly sensitive to the notion of sustainability, have a small hand in these improvements. Alarmed by their bad press, Canadian timber companies announced in May this year that they would work with greens

to improve the management of 72m hectares of boreal forest.

Yet such progress tends to be exaggerated, and even if it were real it would be insufficient because of two huge threats to the forest. The first is climate change, which is expected to redraw the map of forest ecosystems. The boreal forest will creep northwards, for example, as the permafrost thaws and carbon fertilisation increases. By one estimate, Finland's forests could grow 44% faster as a result. But that is nothing to celebrate, because melting permafrost will release billions of tonnes of methane, an especially potent greenhouse gas. It will also be offset by an increase in forest dieback elsewhere, caused by rising aridity, drought, pests and fires—all symptoms of global warming. Deforestation, which causes local warming, exacerbates this. All this could make much of the current forest area inhospitable to trees.

Too many beetles in the boreal

Such damage is already more common than most climate models had predicted, with the boreal belt especially hard hit. Between 2000 and 2005 it lost 351,000 sq km of forest, mostly to fire and pests. Again, this loss does not show up in the FAO's figures, and the resulting emissions are considered to be natural, not man-made. But the distinction is getting blurred. Setting aside its reforestation efforts, Canada, the world's third-most-forested country, lost 5.2% of its tree cover in that five-year period. This was partly because of a plague of bark-beetles in its temperate and boreal zones, a record number of which have been surviving the recent mild winters. By 2009 they had devastated over 16m hectares of Canadian pine forest.

The outlook for the Amazon is also grave. Recent modelling suggests that the mutually reinforcing effects of increasing temperatures and aridity, forest fires and deforestation could bring the rainforest far closer than previously thought to "tipping points" at which it becomes ecologically unviable. So far 18% of the rainforest has been cleared. The loss of another 2%, according to a World Bank study last year, could start to trigger dieback in the forest's relatively dry southern and south-eastern parts. A global temperature increase of 3.5%, comfortably within the current range of estimates for the end of this century, would put paid to half the rainforest. This would release much of the 50 gigatonnes of carbon it is estimated to contain—equivalent to ten years of global emissions from burning fossil fuels.

Too many hungry mouths

The second great threat is human. The Earth's population is expected to increase by half over the next four decades, to around 9 billion, and most of the additional 3 billion-odd hungry mouths will be in developing countries, especially tropical ones. The population of Congo, now 70m, will double in that time. Demand for food in these countries will also double, which, at their current low levels of agricultural productivity, will drive up demand for forest land.

As in most central African countries, Congo's deforestation is currently minor, caused largely by small-scale shifting cultivation and over-harvesting of wood for fuel. At present the country has little commercial agriculture or logging because of the state of its infrastructure, ruined by war and misrule. Indeed, the decay of Congo's Belgian-built roads, which in 1960 ran to over 100,000km, must rank as one of the greatest boons to forests since the Black Death. In the thick forest-savannah mosaic of northern Congo, many days' walk from any tarmac, your correspondent unearthed a milestone, half-buried in the leaf-litter, pointing to the small town of Badai, 15km to the east. Buried deeper was the gravel highway that once led there.

But Africa is an outlier. Most tropical deforestation is the result of expanding commercial ranching

and agriculture, driven by rocketing domestic and global demand for food, fibre and biofuel. In Indonesia, oil palm, a productive source of cooking oil and biodiesel, offers the biggest reason to clear. Between 2000 and 2006 Indonesia planted roughly half a million hectares of oil palm a year, mostly on recently deforested land. The clearance in Brazil, which is mostly illegal, is mainly for pasture; the Amazonian cattle-herd has grown by over 40m head in the past two decades. The explosive recent growth in the cultivation of another oil seed, soyabean, has led to an onslaught on Brazil's dryland *cerrado* savannah, which is often disregarded as a forest, though it contains two-thirds as much carbon as the rainforest, mostly in its roots. By moving northwards into the Amazon basin, soya farmers are also driving ranchers deeper into the rainforest.

Grim climate predictions and recent food-price inflation have led to growing fears for food security, adding to the pressure. Foreign governments and investors are increasingly on the lookout to buy cheap, well-watered tropical land. Last year the Saudi Binladin Group tried, unsuccessfully, to secure land in Indonesia's island of Papua where it wanted to invest $4.3 billion in rice cultivation. China, which has agreed to build and renovate 6,000km of roads in Congo, reportedly wants to cultivate oil palm there on a massive scale. It is the world's biggest importer of palm oil and global demand for the stuff is soaring, even before much is getting converted into biodiesel, as increasingly it will. And wherever there is such demand for tropical agribusiness, forests are being razed to meet it. Securing a licence to clear rainforest is often easier than buying up and consolidating smallholdings.

What hope of survival have forests, especially the tropical sort, most precious and most threatened? Large-scale defences are now being marshalled by governments, NGOs, scientists and investors, chief among them an international endeavour known as Reduced Emissions from Deforestation and Forest Degradation, or REDD. Launched with $4.5 billion, it is based on the idea that rich countries should pay poorer ones not to cut down trees. Yet there is a big risk that REDD will deliver much less than is required.

The Earth's need for forests to soak up carbon emissions is almost limitless. Saving the forest that is left should therefore be considered a modest aim. But even that will require huge improvements in forest management, such as reforming land registries and tightening up law enforcement. Above all, it will require governments to prize forest very much more highly than they do now. Otherwise there will be no chance of the many reforms required outside the forestry sector: in land-use planning and rural development, in agriculture, energy and infrastructure policies, and much else. It will also require politicians to get serious about climate change. All that amounts to a revolution, which is a lot to hope for. But if anything can help bring it about, forests might.

They are crucial in all sorts of ways because of the manifold services they provide. Western taxpayers need the Amazon rainforest to control their climate. Brazil needs it to help feed its rivers and generate hydro-power. Amazonian soya farmers need it to guarantee them decent rainfall. Yet policies at every level conspire to wreak its destruction. Changing them, in Brazil and across the tropical world, is a daunting task. But it is not impossible—and it must be done. The cost of failure would simply be too great.

Listen to an interview with the author of this special report

The Economist

A special report on forests

Money can grow on trees

Forests are disappearing because they are undervalued

Sep 23rd 2010

Rainforest into cooking oil

FROM a helicopter, East Kalimantan, a province in the Indonesian part of the island of Borneo, presents a dreary view. Where little over a decade ago rainforest transpired under a vaporous haze, the ground has been cleared, raked and gouged. Every few minutes, a black smudge, smattered with muddy puddles, denotes a coalmine. Angular plantations, 10km and more across, are studded with dark green oil palms. Tin roofs glitter on the shacks of loggers, miners and planters, each with a smallholding hacked out around it. Just a few straggly patches of forest remain, with greying logs scattered at their edges.

As often in Indonesia, commercial loggers in East Kalimantan have grossly exceeded their quota in a small fraction of their allotted time. Prematurely abandoned, the degraded forest then falls to illegal loggers or it is cleared for agriculture, often by fire. In dry spells, which are becoming more common, the flames get out of hand. In 1998 fires devastated more than 5m hectares of Indonesian forest.

Yet in the national accounts the clearance is recorded as progress. About a quarter of Indonesian output comes from forestry, agriculture and mining, all of which, in a country more than half-covered in trees, involve felling. But this is bad accounting. It captures very few of the multiple costs exacted by the clearance, which fall not so much on loggers and planters but on poor locals, all Indonesians and the world at large.

The Indonesian exchequer, for one, is missing out. Illegal logging is estimated to cost it $2 billion a year in lost revenues. But that can be fixed by policing. A bigger problem is that most of the goods and services the country’s forests provide are invisible to the bean-counters. Many of them are public goods: things like clean air and reliable rains that everyone wants and nobody is prepared to pay for. And where they are traded, they are often undervalued because their worth or scarcity is not fully appreciated.

Forest economics is plagued by these problems, partly because forests provide so many benefits. A UN-backed project in 2005, the Millennium Ecosystem Assessment, identified 24 main ecosystem services, most of which are found in forests: from preventing natural hazards, such as landslides, to providing the eco- in ecotourism. Yet most relate to forests’ role in the carbon and

water cycles and in safeguarding biodiversity. And almost none is priced on markets. Forests are usually valued solely for their main commercial resource, timber, which is why they are so wantonly logged and cleared.

This leads to a profusion of damaging outcomes such as forest fires and lost ecotourism revenue that happen because those responsible are not obliged to pick up the tab. The inferno in 1998 is estimated to have cost over $5 billion in timber alone. According to another UN-backed effort, The Economics of Ecosystems and Biodiversity (TEEB), “negative externalities” from forest loss and degradation cost between $2 trillion and $4.5 trillion a year.

To tackle both problems, it may help to come up with a better evaluation of what forests are worth. That could open up new markets for their bounties through payment for ecosystem services (PES), in the jargon. Or the valuation alone may be sufficient to give pause to the axeman, or the taxman. TEEB’s experts are now putting price tags on forests and other natural boons, typically by calculating the opportunity cost of cutting them down and selling them off.

A draft TEEB report on the Amazon rainforest exemplifies its approach. It estimates the forest’s contribution to the livelihood of poor forest-dwellers, of whom there are at least 10m in Brazil alone, at between $500m and $1 billion a year. That is based on the estimated market value of the fish and thatch they take to subsist, and the gums, oils and other goods they harvest for cash. On a regional scale, TEEB estimates that the rainforest’s role in avoiding siltation in hydro-power reservoirs is worth anything from $60m to $600m a year.

A superior insurance policy

TEEB puts the rainforest’s contribution to South America’s agricultural output, through regulating the continental water cycle, at $1 billion-3 billion. That is based on a guesstimate of the drop in output that might result from even a small deforestation-related decline in precipitation. But Pavan Sukhdev, an economist with Deutsche Bank who heads TEEB, reckons the real figure might be ten times as much, given what Amazonian farmers seem willing to spend on insurance against rain failure.

As such wide-ranging numbers suggest, trying to price ecosystem services on such a big scale can be a mug’s game. The risks associated with ecosystem collapse are not well enough understood for any hope of precision. And whatever huge figure is arrived at will be notional, because no one can afford to pay it, which can invite feelings of helplessness. Yet the idea is that no one should need to pay it. And there is evidence that such valuations can indeed spur remedial action costing very much less. That was the effect of Lord Stern’s influential 2006 paper on the economics of climate change. And if the dream of international co-operation it elicited has generally faded, it still hangs, vaporously, over the forests. REDD, the nascent effort to persuade tropical countries to leave their forests be, is an effort at PES on a global scale. In forest economics, that is the Holy Grail.

At a lower level, bean-counters are becoming a bit less blind to nature’s bounty. For example, to mitigate inland flooding, Vietnam chose to spend $1.1m on planting some 12,000 hectares of mangrove forest, thereby saving $7.3m a year on dyke upkeep. To encourage such decisions, American scientists have developed an ingenious piece of software called Integrated Valuation of Ecosystem Services and Tradeoffs (InVEST). In handy colour-coded maps it predicts the economic and environmental fallout of any proposed land-use change. This could revolutionise land-use planning. China is already using it to pick the best places for new protected areas on a quarter of its territory.

China has one of the world’s biggest PES schemes, a decade-old reforestation effort that has delivered 9m hectares of new forest. Launched in response to flooding of the Yangzi river, it involves paying farmers $450 a year per reforested hectare. Costa Rica is another PES trailblazer. Since 1997 it has made payments of $45-163 a hectare to encourage forest conservation,

planting and agro-forestry. The money comes from a hydroelectric power company which is keen to protect its watershed; the World Bank, which reckons Costa Rica's forest biodiversity is a global good; and a 15% surcharge on petrol. The country's deforestation rate is now negligible.

Perhaps ominously for REDD, however, this scheme may have been less effective than many suppose. Costa Rica's clearance was also reduced by better law enforcement and a shrinking national beef industry. Work by Rodrigo Arriagada of North Carolina State University and his colleagues suggests that the PES scheme was responsible for only 10% of the reduced deforestation on farms that took part.

As Costa Rica shows, there are many ways to raise PES money. In America and Australia, for example, markets have been established to help companies countervail the ecosystem destruction they cause, especially to wetlands. Through habitat banking, as this is known, a developer who drains a hectare of marshland can pay to restore a bigger area elsewhere. This is considered an apt form of PES for protecting biodiversity, the third great forest boon, because the services associated with it are especially hard to collect on. An obvious example is bioprospecting, the perusal of nature's genetic library for new food, medicine and pesticide ingredients.

The world is richer for them

This alone should justify conserving forests, given how many useful discoveries they yield. Aspirin, derived from willow-bark, Taxol, a breast-cancer drug, derived from Pacific Yew bark, and an emerging class of cancer drugs known as mTOR inhibitors, derived from a molecule found in soil bacteria, are examples of ground-breaking medicines that originated in nature. “Plants, bacteria and fungi make a wealth of complex biologically active molecules that would be extremely difficult for us to match,” says Samuel Blackman, associate director of experimental medicine at Merck, a large pharmaceutical company. “We're smart, but we're not that smart.”

The price of ethics

But bioprospecting has done almost nothing to raise the value of standing forests. This is partly because of difficulties in attaching property rights to species. Most tropical countries find it hard enough to attach them to forests. And even if the ownership of biodiscoveries is established, charging for them is tricky. The value of new discoveries is uncertain, and they are swiftly synthesised. The value of old ones, like aspirin, is never paid retrospectively. “When you talk of biodiversity, it's always about potential,” grumbles Aloísio Melo, of the Brazilian finance ministry. Potential can still be realised. But the strongest argument for protecting other species is often ethical. That helps swell the coffers of Western conservation NGOs, but it has few takers among tropical governments.

Still, understanding biodiversity can make it an important adjunct to conservation motivated by other concerns. For example, forests with high biodiversity will be more resilient to climate change. That is one reason why planting new forests—such as China's vast stands of eucalyptus—though good, is not nearly as good as saving natural ones.

The Economist

A special report on forests

Keeping it in the community

Well-organised locals often make the best forest managers, but they need help

Sep 23rd 2010

AT A sawmill in the misty hills of Michoacán in central Mexico, loggers sporting damp sombreros and droopy moustaches are working through a drizzle, hauling pine logs. With iron spikes they lever them into position, hack out any stones embedded in the pungent orange flesh and heave the logs on to a runner. A bullnecked lumberman guides them through a buzzing circular saw, slicing them into rough boards. Another cuts them into planks, which his mate tosses onto a rising stack. It barely takes a minute to transform giant trunks into building material.

Pushing together in Michoacán

Most of it will be sold locally. The loggers, who belong to a rural co-operative (or *ejido*) that owns 680 hectares of the nearby Ocampo forest, will use the rest to make simple furniture. The business provides jobs for 20 of the *ejido's* 138 members, hauling lumber, turning lathes and planting trees, and each member gets an annual profit share of around 15,000 pesos ($1,150).

Over 75% of Mexico's forests, which range from temperate spruce and fir to tropical rainforest, are controlled by local communities, either *ejidos* or indigenous groups. Most were parcelled out in the 1920s, in a spate of land reform after Mexico's 1910-20 revolution. Though much of this forest is technically owned by the state, the communities have strong rights to it. They won control of logging permits in the late 1970s after protests by *ejidatarios* against commercial loggers had brought Mexico's timber industry to its knees. The communities are not allowed to clear or sell their woods; otherwise they can do with them more or less as they please.

This makes Mexico a remarkable case study in what some consider as the best form of forest management. Most forests are claimed and mismanaged by governments. That can also mean dispossessing local people who, denied ownership of a forest they may have considered their own for centuries, tend to become protagonists in its destruction. An obvious solution is to put the forest back in local hands. Once they have tenure, it is argued, local people will regain their incentive to manage the forest sustainably, and trees and people will both flourish.

This is more radical than it may sound. Not long ago it was widely accepted that communally owned resources inevitably get overexploited because a few spoilers, or even a suspicion of them, are sufficient to make other users abandon prudential rules. Known as the "tragedy of the commons", after a hugely influential 1968 essay by an American ecologist, Garrett Hardin, this theory was often cited by governments to justify their takeover of forests in the 1970s and 1980s.

But the tide may be turning. In the past two decades the area of forest in developing countries that is wholly or partly controlled locally has more than doubled, to over 400m hectares, or 27% of the total. That is partly due to a growing recognition that most governments make lousy forest conservationists, and a corresponding hope that locals will do better. That helps explain why 450,000 hectares of Guatemala's Maya rainforest have been made over to 13 communities living there. But other factors have also contributed to the shift, including efforts to deal with the

grievances of dispossessed indigenous people, especially in Latin America, and political decentralisation schemes, especially in Africa and Asia. Tanzania, for example, has devolved rights to about 2m hectares of its dryland forest. And in India a combination of political devolution, tree-hugging judges and activists for tribal folk has helped 275m people win more rights to their nearby forests.

With such diverse origins, the reforms now in progress vary greatly in scope, design and implementation. Yet most share three features: an emphasis on conserving forest; a prohibition on selling or clearing it; and a tendency to deliver less change than they promise. That is often because governments try to claw back control, in myriad ways. They may restrict forest pursuits such as collecting firewood or hunting. They may make it hard to obtain logging licences and other permits, either through incompetence or spite, or they may invent new ones for fun. In Nepal community foresters are not allowed to sell timber on the open market until they have offered it to neighbouring villagers.

Governments also like to keep the more valuable forests for themselves. In Cameroon this is policy. Moreover, even with strong rights to a potentially rich resource, naive villagers generally need advice, training and access to credit to manage it on a commercial basis, and that is rarely forthcoming. More often the forest’s new owners are undermined by petty officials’ preference for dealing with local elites. In Ghana and Cameroon this has allowed venal village chiefs to steal logging revenues.

Most of these troubles are evident in India. Its recent reform, passed in 2006 after an outcry over a court-ordered policy of forest enclosure, grants each household the right to four hectares of agricultural land and a share in local forest produce. But its implementation requires diligent officials, so not much has happened. And the record of an earlier Indian scheme, joint forest management, in which locals were promised a small share of timber revenues in return for deterring illegal logging and planting trees, is discouraging. It offered a few brilliant examples of co-operation between organised communities and motivated officials, but in many of the 85,000 communities covered by the scheme corrupt and controlling officials made participation hard. India-wide it did little for people or trees.

It all depends

Recent research by CIFOR on community forest management in 11 tropical countries suggests that such outcomes are not uncommon. In most of the examples studied, at least some benefit had accrued to some community members, but local control was not in itself a guarantee of better forest management. Where communities were given degraded forest and instructed to regenerate it, they generally did so. But where devolving forest rights provoked local conflict, as quite often happens, the forest usually suffered.

This does not mean that community forest management is no good. There is rarely a better way to balance the interests of poor people and forests. But to do a good job, communities need strong property rights and often technical help. Such assistance should not stifle their ideas on forest management, which are often, though not always, based on a deep understanding of the local ecosystem. Outcomes that are good for both trees and people will also depend on external factors such as law enforcement and access to timber markets. And in the way of forests, these conditions will vary greatly from place to place.

The state of the Maya forest is a good illustration. Where the local foresters get tourism revenue from Mayan archaeological sites, it is thick with trees. In some other places, where the same indigenous communities have the same legal rights to the same sort of forest, it is degraded. “We should not think there’s any optimal form for preserving forests,” says Elinor Ostrom, an American political scientist who won last year’s Nobel prize for economics for her work on common property and collective action. “We find government forests that work and community

forests that work and those that don't," she adds. "Panaceas, like thinking 'community forests are always great', are dangerous."

That is true even of Mexico's community forests. The Ocampo *ejido* is inspiring. Its members began logging their forest in 1989, and with the profits they made they bought their sawmill two years later. The forest, most of which is inside a famous butterfly reserve, has also thrived. Illegal logging has fallen—despite the recent entry into the trade of a cultish local narco-mafia, La Familia. Yet such examples are rare. Around 80% of Mexico's community forests are not managed at all because the locals are unskilled or unorganised or their forest is difficult to log. The dry forests of southern Chiapas and Yucatán require expert management which is beyond the local *indígenas*. They are among Mexico's poorest, most unlettered and most rebellious people, with weak property rights and rapidly disappearing forests.

And even in Michoacán, community forestry faces an uncertain future because it is inefficient. The Ocampo loggers' sawmill is old, yet they are loth to upgrade it for a less labour-intensive model. They also confess to lacking the nous to find the niche markets their pine requires. It is of high quality, but at least 30% more expensive to produce than the sappy Chilean alternative. Overall, Mexico's timber production has fallen by a third in the past decade, despite a $400m annual subsidy to the industry. To remedy this, the government is establishing a big plantation forestry which will make it even harder for the *ejidatarios* to compete.

"In terms of economics, community forestry doesn't make much sense," says Juan Manuel Torres Rojo, director-general of the Mexican forestry department. "But in terms of equity, and perhaps conservation, it's the way to go." He reckons community forest revenues need topping up by a third, and is looking to REDD.

The Economist

A special report on forests

Not a small problem

Will REDD trample on the rights of traditional forest folk?

Sep 23rd 2010

No honey, no rights

ON A scrubby hillside in southern Uganda sit waist-high mounds of grass and twigs. They are the huts of Twa pygmies, the oldest residents of the Great Lakes region. Until recently they inhabited the nearby Bwindi Impenetrable Forest, but around 4,000 were expelled in 1991 after the forest was turned into a national park to protect its population of mountain gorillas. Now the pygmies languish outside it, unskilled at cultivating crops and often inebriated.

For longer than history records, the Twa inhabited the high-altitude rainforest near the western edge of the Rift Valley, hunting antelopes and harvesting honey. "There was no digging then," recalls James Barangirana, an 80-year-old pygmy, "just hunting, gathering, eating and celebrating." But in one of Africa's most populous regions, the rainforest has been badly reduced. And so have the Twa. Perhaps 100,000 remain, in Uganda, Rwanda, Burundi and Congo, almost everywhere wretched. Their Rutwa language, religion, songs and story-telling are dying. As in Bwindi, most are barred from their ancestral forests.

Other forest folk have fared even worse. Five centuries ago there were perhaps 10m Amazonian Indians; now there are 700,000. Most traditional forest people have no legal entitlements to their woods, so their rights are easily abused. That is what is happening to Ecuador's Tageri and Russia's Khanty, who are threatened by oil exploration; Paraguay's Ayoreo and Brazil's Guarani, who are losing their forest to ranching; and Canada's dispossessed Innu.

But things are improving slightly. Brazil has allotted 110m hectares of rainforest to its surviving Indians, who include an estimated 69 "uncontacted" groups. Many "First Nation" Canadians have also won land settlements. Even reluctant Indonesia has nodded acknowledgment to the rights of 50m forest dwellers. Now REDD threatens to reverse this progress by launching governments on a carbon-rush for the woods, say champions for indigenous folk. A prominent activist calls the scheme "potentially genocidal".

This has become one of the thorniest issues in the REDD negotiations. It is now accepted that the "free, prior and informed consent" of local people will be a condition for any REDD project, but activists suspect this is lip-service. A leader of Papua New Guinea's Kamula Dosa tribe says he was forced at gunpoint to sign away the carbon rights to his people's forest. Kenyan Ogiek

hunter-gatherers claim to have been expelled from their Mau forest after a UN REDD pilot project was launched there.

Early initiatives to certify REDD projects do include safeguards for local people. Brazil's draft national REDD law also states that indigenous people own the forest carbon of their reserves. That promises to make the uncontacted groups' first brush with civilisation even more surprising. But if the activists expect a transformation of indigenous people's lowly lot, they will be disappointed. Rainforest countries are not easily shamed on the issue, and developed ones are more concerned to get REDD moving. Standing on the whispering edge of the Impenetrable Forest, Mr Barangirana asks: "Where is the god who will give us back our forest?"

It is at least worth noting, however, that forest people are not always the tree-huggers they are cracked up to be. With a taste of modernity, they can seem much like the rest of us. British Colombia's Lax Kw'alaams First Nation are in trouble with greens for exporting their ancestral woods to China in log form. And at a gathering of Brazilian indigenous leaders in Amazonas, one said he would build roads with his REDD loot: "Let's face reality, we Indians now have cars, so we need roads and other infrastructure."

The Economist

A special report on forests

Better REDD than dead

Tropical forests' best hope

Sep 23rd 2010

Dripping with good things

NORTH of East Kalimantan's scarified waste is an area where the extractive juggernaut has not yet reached. Beneath the helicopter's blades, the woods thicken and the terrain rises to a seam of limestone crag, dripping with trees. Beyond it is the district of Berau, 70% of which is still covered in forest.

It is lovely to behold, its multi-greened canopy like a vast head of broccoli, speckled with orange and yellow where an ironwood tree or a liana has forced itself up to the light. Borneo's forest has more tree species per hectare than anywhere else. It is also packed with carbon: up to 400 tonnes per hectare. Yet much of this forest is doomed. It provides no tax revenues for the government, which owns it, and only a modest income for the local Dayaks, in rattan, honey and game. Failing a remarkable intervention, it too will get cleared.

To expect deforestation to be halted not only in Berau but across the tropical world takes a big leap of faith. Yet that is what is being attempted under REDD. Envisaged as a giant PES scheme for which over 70 developing forest countries could be eligible, it comes with an ambition to halve deforestation by 2020. So far it is visible, in a couple of dozen countries, mainly in the form of small pilot projects run by the UN and NGOs. But it is gathering pace.

A commitment to launch REDD, with "substantial finance", was the only obvious success of last year's Copenhagen summit on climate change. It led to the inaugural meeting in Oslo in May of a 58-nation group, the REDD Partnership, which will hammer out the details for a global REDD deal. To get things moving, half a dozen rich countries, including Norway and Britain, have pledged to provide $4.5 billion by 2012.

How REDD will be funded after that is unclear. It had been assumed that carbon markets would provide, with "forest-carbon credits", equivalent to a tonne of avoided emissions, being bought to offset industrial countries' emissions. For the moment the main compulsory market, Europe's emissions-trading scheme, does not accept forest-carbon credits. But assuming the ETS survives, that is likely to change, and if America ever adopted an equivalent cap-and-trade arrangement, forest carbon would be part of it.

The chances of that have recently receded, following the United States Senate's failure in July to

approve a proposed cap-and-trade scheme. REDD might instead be funded through rich-world carbon taxes. However, it is accepted that REDD's beneficiary countries must be guaranteed long-term funding, perhaps tens of billions of dollars a year, and that these payments will be performance-based.

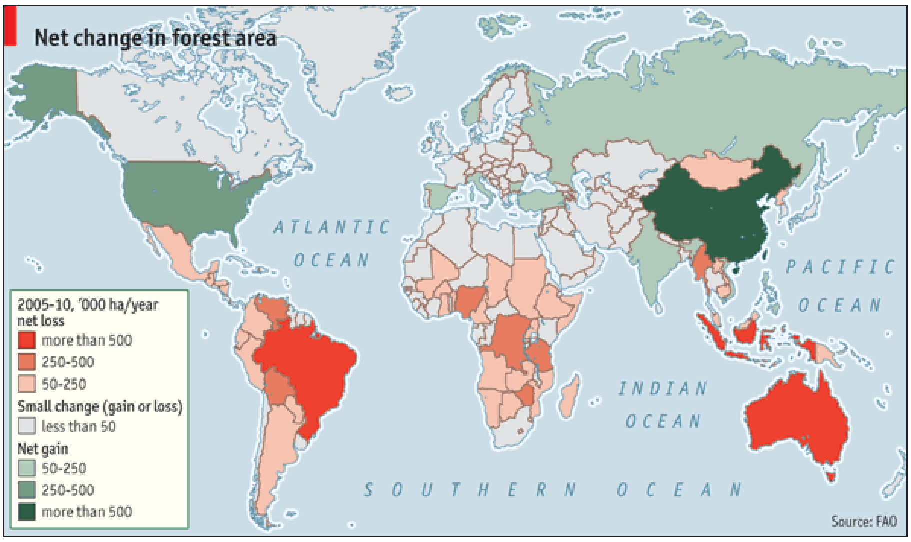
How much is required? No one knows, because no one has ever done anything like this before. Countries generally do not stop deforesting until they industrialise and urbanise, reducing their rural population, or they cut down their forests to such an extent that timber scarcity or environmental disasters lead to urgent protection, as in China. Known as the forest transition, this can be visualised as a curve in the shape of a ski-jump, first sloping down steeply and then turning up gently as the forest creeps back. REDD is an attempt to bridge that dip.

Estimates based on the opportunity costs of not felling, which will often make up the bulk of the total, suggest it can be done relatively cheaply. According to the most recent one, by the Informal Working Group on Interim Financing for REDD, an international quango, an investment of $17 billion-30 billion between now and 2015 could cut deforestation by a quarter. That would save 3m hectares of forest, or 7 gigatonnes-worth of carbon emissions, a year.

It's a gift

This suggests a cost range for REDD of $2-4 per tonne of avoided emissions: a steal. Other estimates are higher. Indonesia's National Council on Climate Change puts the opportunity cost of forgoing an oil-palm plantation at $30 a tonne. But even that would be cheaper than many other sorts of mitigation. Capturing and storing emissions from power stations is estimated to cost $75-115 per tonne. With REDD as an offset option, industrial countries could therefore be expected to undertake deeper cuts than they would have done otherwise. That is why most developing countries, which previously viewed REDD with suspicion, now support it.

There are many concerns. One of them is that avoided deforestation may not be permanent—especially where there is a risk of climate-induced forest dieback. Another is that REDD money will inevitably flow to the most egregious deforesters, such as Indonesia, which may create an incentive for others to take up their chainsaws. Or demand for forest land, no longer met in Indonesia, may shift to non-participants in the scheme. That is why REDD has to be done on a large scale, even if the payments will vary. Brazil, which has been developing REDD for two years, with $1 billion from Norway, has a payment formula that favours Amazon states with high deforestation rates over those with low ones. But, to reward the virtuous, it also takes into account the states' record on meeting REDD commitments.



The biggest worry, however, is that REDD may not be possible at all—at least not on the scale that climate modellers assume. Forest conservationists, schooled in failure, rattle off a list of possible reasons why. Forest title, or the lack of it, is one. Unowned forests are unprotected,

which is why the *grileiros*, or land-grabbers, of the Brazilian Amazon rainforest can so easily turn it to pasture. But even where governments claim a forest, the result can be the same; 63% of the lowland parts of West Kalimantan's national parks were illegally cleared by loggers between 1985 and 2001.

At least it was obvious who was to blame for the clearance. Where forest ownership is contested, because local rights are vague or there are competing title deeds, for example, that becomes more difficult. Unclear ownership also raises a big obstacle to the improvements in land-use planning that REDD must bring about. In Indonesia this would mean putting palm-oil plantations not on forest land but on degraded land, of which it has perhaps 40m hectares available.

That, in turn, will mean facing down the planters, who prefer to bag forest land for a windfall of timber. Between 1990 and 2005 Indonesia planted over 3m hectares with oil palms, over half of it on freshly cleared land. The crop is now coming to Berau. Beneath the hovering helicopter, an ugly mud-orange clearing has been cut for it from the lush green forest.

When the forest is on peat, as in much of central Kalimantan, Sumatra and Papua, the cost of Indonesia's messy land use becomes epic. Peatland can store over 5,000 tonnes of carbon per hectare, and when drained for cultivation emits it for decades. Frances Seymour, head of the Centre for International Forestry Research (CIFOR), ruefully calls this "the gift that keeps on giving". Indonesia's peat-based plantations, a quarter of the total, contribute less than 1% to the country's GDP but nearly 20% of the national emissions.

With Indonesia committed to doubling its area under oil palm, there is a risk that its emissions could soar—but also an opportunity for REDD. Restricting the expansion to degraded land would achieve a huge mitigation. Assuming REDD delivers, Indonesia has vowed to reduce its forecast 2020 emissions by up to 41%. In May President Susilo Bambang Yudhoyono announced a two-year moratorium on commercial deforestation. In response, Norway promised Indonesia $1 billion for REDD.

There are many other risks to REDD, of which corruption is the most prominent. Much of Indonesia's forestry ministry—which claims control over 75% of the country's area—and its logging industry are crooked. That is why wildlife sanctuaries disappear without a whisper. In the 1990s over $5 billion was looted from a national reforestation fund. If that happened to REDD, the effect would be devastating. REDD's stress on performance should make it unlikely, and Indonesia's forestry is getting less mucky. But its greedy elite will still try to manipulate the scheme.

Even if the safeguards work, reforming weak states is hard. Land-use planning for oil palm, for example, might involve not only the ministry of forestry but also those of agriculture, finance, energy and infrastructure as well as the army and the police. All have their own priorities, and saving trees is not among them. Kuntoro Mangkusubroto, the boss of Indonesia's new REDD agency, was previously in charge of rebuilding Aceh after the tsunami. Asked to compare his old and his new job, he says: "'In Aceh the government had totally collapsed, we were working from zero. That was much easier."

But his appointment is encouraging. He is Indonesia's most respected official, which suggests presidential support for REDD. That is essential. For REDD to be sustainable, it will have to be more than life support for the rainforest. It must provide ways for tropical countries to develop growth strategies that do not involve razing forest. In East Kalimantan 39% of jobs are in forestry, mining or agriculture. To bridge the transition, Indonesia will have to create many more jobs elsewhere.

REDD alert

Across the developing world, changes of that kind would entail a complete overhaul of some of

the world's least capable and most corrupt states: to make them rational in their land use, honest in their accounting, responsive to their citizens. That is not going to happen fast, as the sorry history of development assistance suggests. But REDD, provided its design holds firm, can do better. Its rewards must be sufficiently large and long-term to persuade rainforest countries to straighten themselves out. And they must be results-based.

That may be especially difficult to achieve in Africa. For example, Congo's government does not know, to the nearest million, how many people have died in its continuing civil war. How will it provide an inventory of its forest-carbon stock? Who would buy its subprime credits? It will take it years to bring a national REDD programme to market, and meanwhile its REDD efforts will probably have to be funded with foreign public money. That makes it even more important to push ahead where the way is clearer, in Brazil and even Indonesia. REDD can accommodate such staggered progress.

For now, most REDD projects are small-scale and based on traditional conservation. Given better access to markets for their timber, for example, forest folk are encouraged to harvest less of it. Or they might be supplied with fertiliser and asked to clear less forest for planting maize. These are good ideas. Such projects also slightly mitigate the likelihood that REDD will centralise power. And in Africa, where governments are weak and smallholders are the main deforesters, they may be especially effective. But they do not deal with the commercial drivers of deforestation, and they are prone to leakage.

So REDD needs to encourage both national and local conservation efforts. That might mean letting local governments choose from a range of nationally approved conservation measures. The details have yet to be worked out, but some promising experiments have already been launched. In Berau, for example, the district government is devising its own REDD strategy with help from the Nature Conservancy, an American NGO that provided your correspondent with his aerial view of Kalimantan. Three important parts of this—improving logging practices, pushing plantations onto degraded land and strengthening protected areas—will figure in Indonesia's national REDD strategy.

The closer you look, though, the clearer it becomes that action is most urgently needed at the national level. Near the village of Muara Lesan, beside a gurgling forest river, bulldozers are clearing 10,000 hectares of rainforest for oil palm. The ethnic Malay villagers gave their blessing to the scheme and say they are pleased with it, having been promised a small rent by the planters. REDD payments might have given them much more. But their weak right to the forest did not extend to its timber or carbon. Having been identified as the forest's owners, up to a point, these locals cannot profit from it until it is gone.

That makes it all the more striking that three nearby villages have refused permission for a plantation on their 30,000-hectare forest. A local notable, Hang Long, explains the decision: "Oil palm destroys the forest and leaves nothing for our children." This is heroic but probably futile. So long as it is worth so little to its executioners, this forest, too, may go. REDD looks extremely uncertain, but without it massive tropical deforestation is inevitable.

The Economist

A special report on forests

The long road to sustainability

Western consciences can do only so much to conserve forests

Sep 23rd 2010

Sustainable, or just nuts?

IN JUNE last year Daniel Avelino, the public prosecutor of Brazil's state of Pará, the home of most of the Amazon cattle-herd, probably saved more rainforest than many conservation groups ever will. He identified 20 big ranches operating on illegally cleared land and traced the slaughterhouses buying their cattle. He then established that some of the world's best-known retailers, including Wal-Mart and Carrefour, were buying meat from them. He fined the ranchers and abattoirs 2 billion reais ($1.2 billion) and told the retailers that unless they cleaned up their supply chains he would fine them, too.

The response was dramatic. Overnight, the retailers stopped buying meat from Pará and the slaughterhouses closed. To get themselves off the hook, and cows back on it, the abattoirs vowed that in future they would deal only with ranchers who had registered their names and property details and promised not to deforest illegally. Over 20,000 have done so. In the absence of a reliable land registry, Mr Avelino says this will make it much easier to bring illegal deforesters to book. "Once I know who owns the farm, I can send the fine through the post," he says.

Around the same time Greenpeace waded in with a report on the role of Amazon beef in deforestation. That, too, hit at the rich end of the industry's supply chain, linking beef and leather from the Amazon to companies such as Adidas, Nike, Toyota, Gucci and Kraft. Many have since agreed to work with Greenpeace against illegal deforestation. And Wal-Mart has promised to trace its products from the manger to the refrigerator.

That is the upside of growing global demand for tropical food, timber and biofuels: pressure for Western standards to be adopted up the supply chain. This is driven by the eco-worries of Western consumers—and the activists who play on them. Having been long since given the brush-off by rainforest governments, they are finding companies that operate in tropical countries and sell to Western markets much more responsive.

Nestlé, a giant food company, is another of Greenpeace's recent targets. The environmentalists made a spoof advertisement for one of the company's chocolate bars, KitKat, which contains palm oil, and published it on the internet. The ad shows an office worker munching on a chocolate bar which turns out to be the bloody severed finger of an orang-utan. This scored more

than 1.5m online hits and put Nestlé in a panic. It stopped buying palm oil from its main Indonesian supplier, Sinar Mas, a big conglomerate with a reputation for chewing up rainforest, and said it would purge from its supply chain any producer linked to illegal deforestation. It has since promised to get 50% of its palm oil from sustainable sources next year. And unconvinced by the standard of most of this “sustainable” oil, Nestlé is setting its own.

Three reasons for pessimism

But there are three black clouds over this sunny scene. The first is financial: eco-concerned consumers may want sustainable products, but they do not want to pay more for them. That does not matter much to Nestlé because it buys only 320,000 tonnes of palm oil a year, just 0.7% of global output. It is a bigger problem for Wal-Mart, which deals in bulk and has tight margins. It expects to charge no more for its green beef than for its current offering. That will raise questions about how green it really is. To track an animal efficiently in the Amazon might well involve expensive technologies. Uruguay, for example, has a system of microchipping calves that costs about $20 a head. That may be beyond Wal-Mart’s budget.

The same problem haunts the main forest-related certification scheme, for timber. It dates back to 1993, when the Forest Stewardship Council, an alliance of greens and loggers, drew up a list of rules for sustainable forestry. The hope was that consumer demand for FSC-certified wood products would force logging companies to adopt the scheme. But only about 15% of timber globally, and less than 2% of tropical timber, is covered by it. Getting certified is expensive, costing about $50,000 per concession, and the returns are often meagre. Tests by the Home Depot, America’s biggest purveyor of FSC-stamped products, suggest that barely a third of customers would pay a premium of 2% for a certified product, not enough to green even Western retailers.

The second cloud over tropical certification schemes, as Wal-Mart may find, is doubt about their reliability. Some also say that sustainable tropical logging is impossible. Remove 200-year-old Amazon mahogany or Congolese sapele trees and the species may go locally extinct. And although it is true, as loggers argue, that extracting old, slow-growing trees and preserving their carbon in expensive furniture may represent a net sequestration opportunity, high levels of wastage make the argument less convincing. So does the fact that a logged forest can be much less permanent than a mahogany table.

Loggers do most harm to forests not by removing trees but by building roads that give land-grabbers access to them. To get FSC certification, companies need to prevent such trespass. But logging roads remain long after loggers have moved on. In Africa they represent a particular threat to precious forest fauna, including chimpanzees, bonobos and gorillas, by connecting forests to the fast-growing cities where bushmeat is prized. Along a fresh logging road in southern Cameroon, your correspondent once saw many hunters—and the half-eaten remains of two gorillas.

In messy countries like Cameroon, certification schemes get corrupted. At best, certifiers may struggle to examine vast concessions on brief visits, as the guests of loggers who are also paying their fee. Further down the supply chain, timber-dealers and factories are often certified largely on the strength of documents which may be illegally bought. This also allows inventories to be inflated and illegal wood to enter the supply chain. And there is still plenty about, despite the recent reduction reported in Cameroon and elsewhere.

Who cares?

The third factor undermining certification schemes is the most important: the majority of tropical commodities are not consumed in eco-sensitive markets. Most rainforest timber is used locally. In Brazil, for instance, the proportion is 80%. And the biggest importers of tropical timber, China

and India, show scant concern for its provenance (though China, the biggest exporter of wood-based products to Western markets, has recently seemed to care a bit more). China and India are also the biggest importers of palm oil. Brazilian beef goes mainly to Russia, Iran, Hong Kong and Egypt. They are not tree-huggers.

This highlights one of the biggest problems in forest conservation. Most of the changes it requires, such as rational land-use planning, law enforcement and the rest, have to be led by governments. Market-led schemes can succeed up to a point, as Greenpeace has often shown, but without government support they soon hit their limits. On the other hand, when governments put their weight behind conservation, a fair bit of progress is possible.

Western governments are starting to do their bit. A 2008 amendment to America's Lacey act has made it an offence to import illegal timber. This puts the onus on federal authorities to prove illegality, which can be difficult, especially when the wood is from a dodgy place, like Cameroon, and processed by a less dodgy one, like China. Nor is legality the same as sustainability, but often they are close. Gibson Guitar, an iconic American company, is at risk of becoming the first victim of this reform. It is being investigated on suspicion of knowingly importing illegal Madagascan rosewood.

In July the EU also passed a law criminalising the import of illegal timber. Its strict rules on beef imports, which demand traceability in producer countries, could one day help reform Brazil's cattle practice. But it would be far better if Brazil were to decide to take such steps itself.

The Economist

A special report on forests

Less smoke, less ire

Brazil, long the world's deforester-in-chief, is mending its ways

Sep 23rd 2010

Can Brazil kick the habit?

THE Amazon's dry season, from July to September, is when the *grileiros* cut and burn the rainforest. The smoke is so thick it can be seen from space. It also stops rainclouds forming, so the flames burn higher. But on a recent surveillance flight over the forest frontier in Brazil's state of Pará, there was hardly a wisp of smoke in the sky. Even the people from Greenpeace, whose flight this was, were impressed.

They can take some credit, thanks to their Amazon beef campaign. But even before that Brazil's deforestation rate had slumped. Between 1996 and 2005 some 19,500 sq km of the Brazilian Amazon were cleared each year. At that rate, a third would be gone by 2050 and the rest might wither. But the rate of clearance has been reduced drastically and in 2008-09 it was at its lowest level for two decades, at a mere 7,008 sq km. This is partly because of tumbling prices for agricultural commodities, the reason for previous downward blips in 2006 and 2008. But it is also because of government action. When soya and beef prices briefly began to climb at the end of 2007 there was a renewed spurt of hacking and burning. But it was swiftly quashed.

What has changed? First, there has been a big expansion in the area of rainforest designated as national park or indigenous reserve, or zoned exclusively for logging. Between 2002 and 2009 Brazil committed 709,000 sq km of the Amazon to such use. The idea was that, even where the state cannot police the rainforest, as it mostly cannot, straightening out who owns it would deter land-grabbing. It seems to have worked. An analysis of the reduced clearance up to 2006 attributes it, in order of importance, to the expansion of protected areas, low commodity prices and other factors, including a modest improvement in policing.

That has since become more discernible. In 2008 the government confiscated 3,000 cattle from a protected area, an unprecedented step. In May this year the former environment secretary of Mato Grosso was arrested over an illegal-logging scam. Ranchers linked to illegal deforestation or slavery, another curse of Brazil's wild frontier, have been blacklisted, restricting their access to credit. Brazil's monitoring capability has also improved. Since 2004 the national space agency, INPE, has released bi-weekly deforestation reports which makes it impossible to hide the clearing of mega-ranches. Most Amazonian deforestation is now reckoned to be small-scale and gradual. Carlos Nobre, one of INPE's top scientists, says he will soon be able to detect this, too.

The government is also discouraging the cultivation in the Amazon of sugarcane, a source of bioethanol, demand for which is soaring. More important, it has launched an effort to finish cleaning up the land registry, following the passage last year of a law to formalise all pre-2004 land claims for holdings of 2,500 hectares or less. Pará's state government has appointed the foremost expert on Amazonian land law, José Benatti, to manage what amounts to an amnesty; so far he has issued over 30,000 title deeds.

The government promises to go further. Before its billion-dollar deal with the Norwegians in 2008, it vowed to reduce deforestation in the Amazon by 80% by 2020. That would mean an annual loss of 3,250 sq km a year, a good chunk of rainforest but less than the area of discarded pasture that returns to forest each year. Many policymakers now talk of ending deforestation by 2030, or even reversing it. To reduce the risk of rainforest die-back, the World Bank recommends reforesting 40m hectares of Amazonian land that had been illegally cleared.

It is hard to exaggerate the benefits this would bring. It would help avoid manifold predicted catastrophes to do with climate, weather and the survival prospects of millions of species. It would suggest that this effort was being taken seriously by the biggest rainforest country and a large emerging power. It might even suggest that success is possible. But the caveats attached to this hope are large.

First clear the hurdles

Almost all Brazil's new tree-hugging efforts need a push. Law enforcement, though greatly improved, is still sporadic; IBAMA, the main environmental-protection agency, owns just six helicopters. And though more illegal deforesters have recently been convicted, less than 10% of them are actually paying their fines. Given such impunity, why not grab more land? There is a fair chance, after all, of another land amnesty sooner or later.

Meanwhile the inevitable backlash from landowners and their political sponsors has begun. They are now demanding a big reduction in the stipulated area of tree cover on private land. That is not unreasonable. The requirement for Amazonian holdings—80% tree cover—is bad for business, as well as unenforceable. Yet there is a serious risk that such safeguards could be lowered too much, especially in an election year: Brazil is due to hold a presidential poll next month and the front-runner, Dilma Rousseff, has a record of favouring destructive infrastructure projects in the Amazon.

Moreover, far too many Brazilian policies—in agriculture, infrastructure and elsewhere—encourage deforestation. Reversing this trend would be difficult and time-consuming even with political support. Yet ending deforestation in the Amazon would be in Brazil's interest, and many Brazilians are demanding it, which is why it is now imaginable.

It will not be at the expense of Brazilian farmers. Agriculture and livestock contribute about 30% of national output, and in absolute terms will grow steeply in the medium to long term. Exploding global demand for food, of which Brazil is already the biggest exporter in a dozen categories, will make sure of that, and recent investments in Brazilian agriculture point in the same direction. For example, BrasilAgro, a firm controlled by one of Argentina's biggest agribusinesses, Cresud, has acquired close to 200,000 hectares in four years and is trying to buy much more.

More from less

But Brazil should not need to clear more rainforest to accommodate this growth. Brazilian cattle-ranching, which occupies 209m hectares, is staggeringly unproductive, with an average stocking rate of less than a head of cattle per hectare. By periodically turning the soil and scattering fertiliser, that rate could be doubled or even tripled. Already the world's biggest beef exporter, Brazil could hugely ramp up its production on half the land it currently reserves for grazing. That

would free up space for crops, which are far more profitable. The World Bank suggests it could provide 70m hectares, more than Brazil now has under cultivation.

Cram them in and stop felling

The obvious risk is that making ranching more productive will raise the incentive to grab more of the rainforest, but there are mitigating factors. Deforestation is inextricably linked to low-productivity ranching. Because most Amazonian ranches are illegal, or their ownership is contested, ranchers and banks are reluctant to invest in them. And even where the land is legally owned, Brazil's complicated land-use laws, which are most strict and most flouted in the Amazon, often put it beyond the pale. According to BrasilAgro's Julio Piza, "the system conspires to keep reputable companies away from the Amazon." To bring them in, and so raise the productivity of Amazonian ranching, it needs to become legal.

That is why Brazil is trying to fix the land registry. It is also why Amazonian state governments are rezoning their territories, which will allow a more modest reduction in the stipulated tree cover than the lawmakers are demanding. Legitimising the Amazon's economy could benefit trees in several ways. More profitable ranches, farms and plantations would yield tax revenues for cash-strapped law-enforcement agencies and create jobs for the 5m-odd smallholders and landless peasants currently responsible for much of the clearance.

Luis Prates Maia is one of them. A temporarily retired *grileiro*, he is currently squatting with other landless folk on a vast ranch in southern Pará, demanding a piece of it for himself and his eight sons. That is probably illegal; but so, Mr Maia points out, is the ranch.

Until Brazil provides jobs for such people, politicians will use them to justify turning a blind eye to deforestation—from which commercial deforesters will profit more. As President Luiz Inácio Lula da Silva said before last December's Copenhagen summit on climate change, "I don't want any gringo asking us to let an Amazon resident die of hunger under a tree."

But it is not only gringos who clamour to stop deforestation. In fact, the charge is led by Brazilian scientists, who fear that a rainforest tipping-point is nigh. They are backed by most Amazon state governors, who sniff REDD bucks but also fear the effect deforestation will have on the region's water supply. A former governor of Mato Grosso, Blairo Maggi, is also the world's biggest soya farmer. He used to argue in favour of clearing forest for agriculture but now wants to save it.

So do Brazilian businessmen. Some of the biggest wrote to Lula last year to urge him to make a tough emissions-cutting commitment. He did so, pledging Brazil to cut up to 39% of its projected emissions by 2020. Many Brazilian businessmen consider this an opportunity. With around 40% of its emissions coming from avoidable deforestation, Brazil can curb them much more cheaply than any other big emerging economy. Its current alignment on climate with high-polluting, coal-dependent China and India is a triumph of developing-world solidarity over self-interest.

Colour me green

Brazil's great advantage is its abundance of land, water and sunlight, combined with an increasing ability to use them to best advantage. It gets over 40% of its energy from renewable sources and is successfully developing green technology. Braskem, a big Brazilian petrochemical firm, has developed a technique to make ethylene from bioethanol and is about to open the world's first "green plastic" plant. Rebranding Brazil as an eco-friendly producer could give it dominance of the most lucrative markets for its many agricultural products. Rubens Ricupero, a former finance minister who sits on the board of Braskem's parent company, dares to imagine his country as an "environmental power".

There are a few hurdles in the way of that. But if Brazil's leaders chose to clear them, rather than the rainforest, they would not only do the world a favour; they would benefit their own country's economy too.

The Economist

A special report on forests

Something stirs

But to save the forests, the world needs to find somewhere else to grow its food

Sep 23rd 2010

WHEN Michael Williams, a British geographer, sat down in 1994 to write a chronicle of deforestation, "Deforesting the Earth", he had a useful aide-memoire. Flashing near his study, outside the Los Angeles branch of the Hard Rock Café, was an ever-diminishing neon number, representing the remaining area of rainforest. It counted down at about 20 hectares a minute, at which rate no rainforest would be left by the end of this century.

Despite a faddish Western concern for tropical forests, more were cleared in the ensuing decade than ever before. Most tropical countries, being poor and weak, could not have prevented that even if they had wanted to, and most did not. Anxious greens switched to another losing cause, mitigating climate change, and the Hard Rock Café took down its sign.

The world is now doing better by its forests. It is protecting more of them, logging them a bit less riotously. Above all, there is REDD. As a serious effort to make standing forests more valuable than razing them for agriculture, it is unprecedented. And unusually in the fractious UN climate negotiations from which it sprang, REDD has the backing of both rich and poor countries. Indonesia's recent vow to suspend commercial clearance, in anticipation of its billion-dollar gift from Norway, was a big boost.

But if REDD is unprecedented, it is because so is the threatened climate calamity, and forests have a lead part in that. They are the cheapest large-scale carbon-sequestration option available: they actually consume the stuff. This presents a big opportunity. Through afforestation, reforestation and cutting down agricultural emissions, by one estimate, carbon dioxide equivalent to 40 parts per million could be extracted from the atmosphere by 2050. That would roughly match global emissions over the past three decades.

Conversely, when forests are cleared or die back because of global warming, they emit carbon. Canada's beetle-plagued forests are a net carbon source. Since forests hold half of all terrestrial carbon, this presents a huge threat.

To mitigate it, natural forests must be conserved. This is an excellent thing to do anyway. Forests provide myriad other benefits, especially in hydrology and by hosting millions of species. Appreciating forests just for their carbon, says Tom Lovejoy, an American biologist, "is like valuing a computer chip only for its silicon".

Does the recent push on forest conservation stand much chance? That will depend, firstly, on REDD delivering the promised cash. Indonesia's decision to stop clearing, which will slow the growth of its palm-oil industry, was not just for the good of the planet. The country hopes to collect perhaps $10 billion a year from REDD.

But even if REDD money flows in spate, it will not be enough to stop the clearance on its own. Large-scale forest conservation is difficult because no two forests are alike. And it can be impossible without a state that operates at a minimum level of efficiency, which many tropical countries fall short of. They are also the places where most forest is most directly threatened by an exploding human population.

Limiting the damage will require a global rethink of land use, which capable countries must lead. Above all, with the human population set to increase by half over the next 40 years, the world needs to work out where its food is going to be produced. There is enough degraded land available—maybe a billion hectares—to ramp up production without clearing forests. But this is hard to pull off in weak states teeming with peasants in search of somewhere to plant their crops. And it is made harder by undiscerning foreign-trade and investment policies. It is no good China planting kingdoms of eucalyptus at home while bulldozing Congo's rainforest to grow palm oil.

A philosophical shift is required, to recognise how precious forests are. It will probably happen as climate crises multiply. But it may not come fast enough to save what remains, in Michael Williams's phrase, of "the incomparable green mantle that clothes the Earth".

A special report on forests

Sources and acknowledgments

Sep 23rd 2010

Many people gave tremendous help with this special report, and the author thanks them all, in particular: Marco Albani, Lindsey Allen, Patrick Alley, Xavier Andrillion, Arild Angelson, Belisario Arce, Ralph Ashton, Hans Brattskar, Francisco Chapela, James Clarke, Mario CohnHaft, Flore de Pré, Gretchen Daily, Dorothée D'Herde, Gerhard Dieterle, Carol Donatti, Greg Fishbein, Marcus Frank, Benjamin Hodgdon, Lex Hovani, Yemi Katerere, Markku Kanninen, Asmeen Khan, Shankar Gopalkrishnan, Chris Knight, Anne Larson, Marcelo Lima, Tom Lovejoy, Celia Luttrell, Sergio Madrid, Jacques Marcovitch, Moray McLeish, Juliane Mello, Denis Minev, Paulo Moutinho, Andre Muggiati, Daniel Murdiyarso, Robert Nasi, Daniel Nepstad, Carlos Nobre, Ruth Nogueron, Nick Nuttall, Krystof Obidzinski, Elinor Ostrom, Pablo Pacheco, Subhrendu Pattanayak, Agus Purnomo, Louis Putzel, Nia Sabarniati, Yani Saloh, Victor Salviati, Adam Schwartz, Frances Seymour, Douglas Sheil, Erin Sills, Roberto Smeraldi, Michael Stone, Pavan Sukhdev, Terry Sunderland, Blythe Thomas, Mark Tercek, Lou Verchot, Virgílio Viana, Peter Wood, Sven Wunder.

A special report on forests

Offer to readers

Sep 23rd 2010

Buy a PDF of this complete special report, including all graphics, for saving or one-click printing.

The Economist can supply standard or customised reprints of special reports. For more information and to place an order online, please visit our Rights and Syndication website.

Special reports

The Economist

Brazil's mining giant

Valuable Vale

Few firms have achieved so much with so little fanfare. But can Vale mine anything other than iron ore?

Sep 23rd 2010

IT IS perhaps the biggest firm you have never heard of. The Boston Consulting Group says it has created more value than any other large firm in the world over the past decade. Yet few people know how to pronounce Vale's name (it's "vah-lay").

This giant Brazilian miner has stayed out of the spotlight even as ravenous demand from China has propelled it from insignificance ten years ago to a market capitalisation of $147 billion. It is now the world's second-largest miner: smaller than BHP Billiton, but bigger than Rio Tinto and other better-known rivals.

That Vale has kept its success quiet is partly an accident of history. It is not the product of a headline-grabbing mega-merger. Rather, it was a staid state-owned firm until it was privatised in 1997. It hatched plans to build itself into a big, diversified mining company only in 2001.

However, it has not yet diversified much beyond iron ore or its home country. It is by far the world's biggest producer of iron ore, digging up some 230m tonnes of the stuff in 2009 (a weight roughly equivalent to 1,000 of the statues of Christ the Redeemer overlooking Rio de Janeiro—every day). Rio Tinto, the number two iron-ore producer, extracts a mere 172m tonnes annually.

Vale relies on iron ore for 65% of its revenues. Other mining giants spread their risks across multiple commodities and a variety of safe and hazardous countries. Vale, by contrast, mines mainly in Brazil.

Its ambitions to broaden its interests beyond Brazilian iron ore face two obstacles. Does it have the ability? And does it have permission? According to Rene Kleyweg of UBS, a Swiss bank, Vale has yet to prove that it can operate as a diversified miner. And its relationship with Brazil's government, which would prefer it to invest at home, is both tricky and unclear.

Iron ore is largely a logistics business. It is easy to extract, bulky and relatively cheap. The trick is to transport vast quantities around the globe quickly. At this, Vale excels. The firm owns about 10,000km (6,200 miles) of railways, nine ports and a huge fleet of ships.

Vale wants to expand its iron-ore business, a vast cash-generating machine, in Brazil and farther afield, in Guinea-Conakry. Rodolfo De Angele of JPMorgan Chase, a bank, predicts that in ten years' time Vale will still be mainly an iron-ore firm. But despite that wonderful substance's attractions, Vale aims to shuffle its assets to offer a greater variety of minerals to commodity-craving emerging markets.

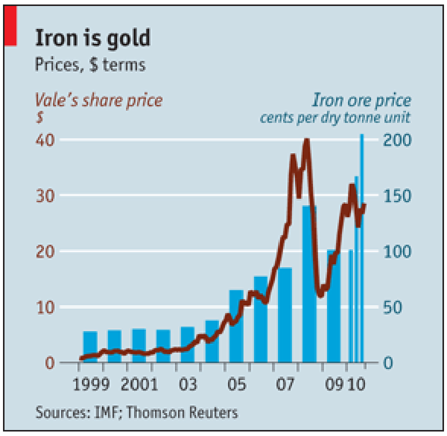
In May it sold its aluminium business to Norway's Norsk Hydro, for a mix of cash and equity. Aluminium requires lots of expensive electricity to produce. Also, there is no shortage of it in China, which tarnishes its allure. Vale has plans for organic expansion in nickel, copper, coal and potash. Demand for all of these minerals is likely to surge as poor countries get rich.

Critics carp that Vale's ventures in copper and nickel have not been wholly successful. In 2007 it spent $19.4 billion on Inco, a Canadian nickel producer. Its Brazilian managers irritated its new Canadian employees. A year-long strike over pay and pensions by 3,000 workers ended only in July. A nickel investment under way at Goro in New Caledonia may show whether Vale has the skills to manage a big, technically demanding mining project.

If Vale's foreign ventures go poorly, that may not worry Brazil's government. Many in the industry claim that Vale's shareholding structure gives Brazil's president (currently Luiz Inácio Lula da Silva) the power to force Vale to invest and create jobs at home. But some of the pension funds and investment companies that hold big stakes in Vale will not like this at all. They care about returns, not economic nationalism. In theory it is shareholders who control Vale and the government owns only 5.4% of the shares.

However, Lula exerts pressure on the firm behind closed doors and through the media. A future president could do the same. The royalties Vale pays to the government for mining in Brazil are modest, but a new mining code under discussion will probably bump them up after the presidential election next month. The ultimate sanction—renationalisation—is extremely unlikely. That said, displeasure in Brasilia may have nudged Vale into ending negotiations to take over Xstrata, a Swiss mining firm, in 2008. But Vale rejects suggestions that a government "golden share" gives it the power to block deals.

Vale's decision to sell its aluminium business and to order a fleet of enormous ships from China has annoyed the Brazilian government, which is trying to revive Brazil's shipbuilding industry. The firm points out, not unreasonably, that it has to buy Chinese ships because Brazilian shipbuilders are incapable of making vessels that are big enough for its needs. It has half-acquiesced to Lula's pleas that it invest in Brazilian steelmaking; it has put modest sums into joint ventures and other partnerships. But Vale denies that recent investments in Brazilian potash are motivated by anything but commercial good sense. Potash is set to boom, it insists.



After the election Vale will unveil new investment plans. Rumours suggest that these will involve capital spending of up to $100 billion over the next five years—most of it in Brazil. That should keep the government happy, while leaving Vale with ample sums to invest abroad. It may be that the price of iron ore will fall, hobbling Vale's progress. But mining firms everywhere look at all the cars, pipes, bridges and steel-skeletoned skyscrapers that Chinese people seem to want, and doubt it.

Business

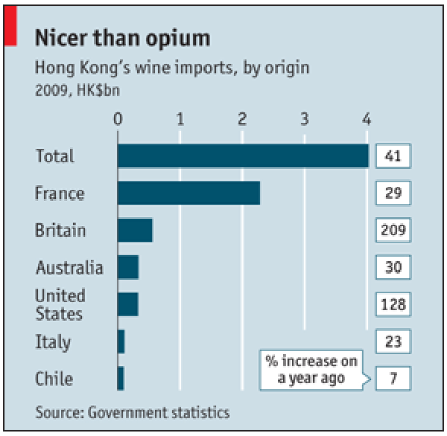
The Economist

The wine boom in Hong Kong

Days of wine and tulips

A tax cut uncorks a boom

Sep 23rd 2010 | HONG KONG



IN 2004 a businessman named Jim Thompson leased a set of old munitions bunkers in Hong Kong and converted them into wine cellars. It was a bold move. Few East Asians then had a taste for fine wine, and Mr Thompson's firm, Crown Worldwide Group, was accustomed to the steadier business of shipping expatriates' furniture around the globe. But Crown made strenuous efforts to seduce potential customers with lavish tastings and other jolly social events. The venture grew steadily until, four years later, the bunkers had 100,000 bottles in store.

All this was despite a heavy sales tax that suppressed demand for wine in Hong Kong. In early 2008 that tax was cut to zero. Since then, 400,000 more bottles have been crammed into Crown's bunkers, filling them to the brim and forcing the firm to build a vast new warehouse.

The zero tax rate has attracted big auction houses to the wine trade in the ex-colony. David Elswood, the top wine man at Christie's, says that Hong Kong has become more important than New York and London combined. At a Christie's auction on September 17th and 18th record prices were established for 20 wines. Another auction house, Acker Merrall & Condit, had a similarly successful event this month. Eight more auctions will be held between now and Christmas.

Although most of the new demand has a mainland-China connection, there have been buyers from South Korea, Japan, Indonesia and Thailand, all of which still tax wine heavily. (The Thai government also plans to slap gory photos of road accidents on bottles of booze.) Moving wine into these countries would be costly. But for many buyers that is beside the point. They are buying to invest, not to imbibe. Their bottles will remain in the vaults.

If people were buying to drink, one might expect the surge in prices and volumes to be broad-based. Instead, it is focused on a handful of famous names. These are, ahem, a more liquid investment: they can easily be resold. And using reputable auction houses reassures buyers that the wine is not counterfeit.

Prices for Château Lafite Rothschild, the market leader, have doubled in the past six months. China's largest bank, ICBC, is reported to have started buying wine on behalf of its clients. Classes on wine investing are taking off. Sniff its bouquet, however, and the wine boom has hints of tulip mania. The only difference may be that if the market pops, investors will have something to drown their sorrows with.

Business

The Economist

Smartphones in South Korea

LG's woes

Will hiring the founder’s grandson save LG Electronics?

Sep 23rd 2010 | SEOUL

REVIVING LG Electronics is not nearly as daunting a task as reviving North Korea. The latter is a hideous dictatorship with no money. The former (whose name comes from the brands Lucky and Goldstar) is a South Korean electronics firm fallen on hard times. Yet both the company and the communist hell-hole face the tricky question of how to handle the succession at the top.

On September 17th LG announced that its chief executive, Nam Yong, will stand down next month. His sin was to have been caught napping by the smart-phone craze. LG entered the market late, with a so-so model called the Optimus. Its share of global mobile-phone sales has fallen from 10.7% last year to 9%, according to Gartner, a research firm. The average price of its handsets plunged by 27.8%, pushing its mobile division into losses of 120 billion won ($103m) in the second quarter.

LG’s woes mirror those of Nokia. The Finnish firm sells more handsets than anyone else; LG is number three. But both depend too much on the low-margin, basic end of the market. Nokia recently dumped its Finnish boss and replaced him with a dynamic outsider, Stephen Elop, formerly a high-flier at Microsoft. LG, by contrast, has plumped for a member of the *chaebol*’s founding family, Koo Bon-joon.

Mr Koo is no fool. He has led other units of the sprawling conglomerate, such as LG International, a natural-resources firm. LG says he has “a deep understanding of technology and extensive experience in broad industries”. But he is hardly a breath of fresh air.

LG has a mere 1.5% of the global smart-phone market. It is struggling even on its home turf. This matters: South Koreans adopt new gadgets early and enthusiastically, so a firm that does well there may do well globally. The South Korean market is dominated by Apple and Samsung Electronics, which has already sold 1m units of its “iPhone Killer”, the Galaxy S.

LG is fighting back with the new Optimus One and an ambitious sales target of 10m units. But the competition is as intense as the love that North Koreans are supposed to feel for their Dear Leader. Besides its established rivals, LG faces a challenge from HTC, a fast-growing Taiwanese firm. If Mr Koo can put the “lucky” back into LG, he will deserve a gold star.

Business

The Economist

Retailing in South-East Asia

Exit Carrefour

Carrefour is quitting South-East Asia. Its rivals are waiting to pounce

Sep 23rd 2010 | BANGKOK

TRUE to its French origins, Carrefour's flagship Bangkok hypermarket has a fine cheese selection. But the raw-milk Camembert and other olfactory treats are tucked away behind rows of rice, fish sauce and other Thai staples. Carrefour's presence in Thailand is similarly modest. Whereas Britain's Tesco has become the country's biggest grocery chain, Carrefour lies in a distant fourth place. Across the border in Malaysia it trails well behind Tesco and two other foreign retailers.

And so, with a Gallic shrug, Carrefour is closing up shop in much of South-East Asia. Its 44 stores in Thailand, 23 in Malaysia and two in Singapore are for sale, with a second round of bidding now under way. Potential buyers are said to include Tesco and Casino, a French firm that already has a Thai joint venture, Big C. Analysts reckon that Carrefour's stores could fetch up to $1 billion.

Carrefour was one of the first foreign grocers to open shops in South-East Asia in the 1990s. But the later-arriving Tesco proved cannier in figuring out what consumers wanted. When the firm found out that Thai shoppers travelled for miles by bus to its "big-box" stores, it opened smaller stores in rural towns. Carrefour focused on Bangkok's higher spenders and stuck to its hypermarket format. Toby Desforges, founder of Engage, a marketing consultancy, calls this the "take it or leave it" approach. Thai shoppers left it.

Another factor in Tesco's success in South-East Asia was its choice of local partners, says Kelvin Chan of Euromonitor, a market-research firm. In Thailand, Tesco teamed up with CP Group, an agri-business conglomerate, before going it alone. Its Malaysian partner, Sime Darby, was able to find suitable properties for hypermarkets. Tesco also acquired eight stores in Malaysia from Makro in 2007. By contrast, Carrefour chose to go it alone in both markets and found itself boxed in by rivals.

Carrefour's chief executive, Lars Olofsson, has been under pressure from activist shareholders to reverse the firm's global expansion and focus on Europe. Mr Olofsson has said he prefers to leave markets where Carrefour is not one of the top two retailers or has little hope of becoming one. Scale matters in such a low-margin business. Carrefour's Asian strategy is to stay the course in China and Taiwan, find a local partner in Indonesia and wait to get a foothold in over-regulated India.

With operations in 30-odd countries, roughly twice as many as Tesco, Carrefour may simply have overreached. Last year it abruptly pulled the plug on Russia, only months after opening its first store there. Tesco's outgoing chief executive, Sir Terry Leahy, sniffs that Carrefour raced willy-nilly into emerging markets without a road map. "Lots of retailers have begun international expansion, hit a problem, then retreated and lost market share," he says. Tesco still ranks third behind Carrefour in global turnover (Wal-Mart is number one). But it is more profitable.

For all that, Carrefour's retreat from South-East Asia may be ill-timed. Compared with Europe, the region's economy is buoyant. Thailand's modern retail sector is growing rapidly despite the country's political turmoil. The same is true of Malaysia. As incomes rise, more shoppers will opt to drive to large, air-conditioned stores and load up on groceries. Some might even develop a taste for French cheese.

Business

The Economist

Facebook on film

Screen test

Techies get the Hollywood treatment

Sep 23rd 2010 | SAN FRANCISCO

Yes, I hate meeting people face to face, too. Let's make it unfashionable

MARK ZUCKERBERG, the boss of Facebook, has said he doesn't plan to see it. Other folk present at the creation of the social-networking giant have ridiculed its interpretation of events. But "The Social Network", a movie about the early days of Facebook that is due for release in America on October 1st, has received glowing early reviews in the Hollywood trade press. The film has even been tipped as a potential Oscar-winner.

If punters are similarly enthusiastic, other web firms could soon find themselves on the silver screen. Wags have already produced spoof trailers for make-believe movies about YouTube ("The Video Website") and Twitter ("The Twit Network"). There are also serious projects in the works. Groundswell Productions and John Morris, a film producer, recently acquired the film rights to "Googled: The End of the World As We Know It", a book about the search firm written by Ken Auletta of the *New Yorker*. Michael London, Groundswell's founder, says they are now looking for a writer to produce a screenplay about the company's meteoric rise.

Film-makers' enthusiasm for internet giants is understandable. Many of these firms have short but turbulent histories that involve get-massively-rich-quick success stories plus near-constant battles to preserve youthful idealism in the face of harsh commercial reality. Their founders also tend to be rebellious types who enjoy challenging authority.

All this is potentially rich cinematic fodder. Mr London and his colleagues were attracted to Google both by its spectacular growth and by its professed desire not to become evil as it got bigger. The fact that, like Facebook, it is a household name around the world also guarantees a global audience for a movie about its ascent.

Larry Page and Sergey Brin, Google's co-founders, will no doubt be hoping they get more sympathetic treatment on screen than Mr Zuckerberg, who is played by Jesse Eisenberg. In public, Facebook says that the film is a sign of the impact the network has had, even though it is a work of fiction. But in private, the network's top brass are furious about the picture that David Fincher, the director of "The Social Network", and Aaron Sorkin, who wrote its screenplay, have painted of Mr Zuckerberg.

In the film, he comes across as an insecure programming prodigy whose ambition ultimately

alienates some of his closest friends and business partners. “You don’t get to 500 million friends without making a few enemies,” proclaims a poster for the film. Although this harsh portrayal of Mr Zuckerberg is unlikely to persuade millions of users to abandon Facebook, it will provide ammunition for privacy activists and others who insist that the network’s bosses cannot be trusted with the enormous amount of data its users have provided about themselves. The *Wall Street Journal* reports that Mr Zuckerberg is planning to give $100m to charity.

There is little doubt that “The Social Network” has greatly over-dramatised many aspects of the Facebook story. Chris Hughes, who helped co-found the service with Mr Zuckerberg while both were at Harvard University, says that the reality of the site’s early days “was far more boring”. But as anyone who has ever worked in Hollywood can tell you, film studios rarely stick to the original script.

Business

The Economist

Green energy

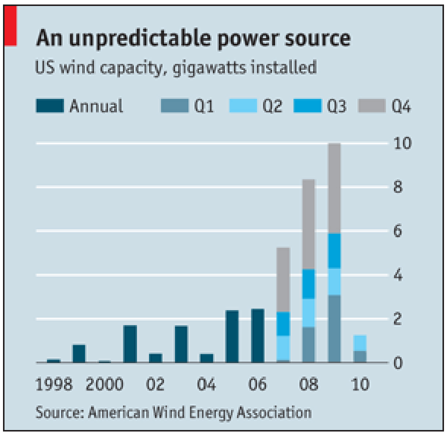
Wild is the wind

Wind power is in the doldrums

Sep 23rd 2010 | BERLIN

STORMS have brought alternating ruin and fortune to the small German town of Husum. A 14th-century gale flooded and destroyed parts of the town. Yet it also carved an inland harbour, allowing the survivors to build a prosperous market. These days the town still depends on the weather. Wind turbines are built in its shipyards and every second year it plays host to the world's biggest gathering of wind-energy companies.

Two years ago, windmill-makers were fretting about their inability to meet a surge in global demand. Last year the industry installed 37,500 megawatts of electricity-generation capacity, increasing the total installed base by almost a third. Capacity in China doubled. Wind firms' main worry was a shortage of components.



That typhoon of demand has now passed. Installations this year in America could be little more than half what they were last year, predicts the American Wind Energy Association, an industry club (see chart). In Europe demand for new windmills will fall by 14-15%, say analysts at HSBC, a bank. The only big market that continues to grow, albeit slowly, is China. Wind firms face their first recession.

The credit crunch does not help. Some 40% of wind parks in America and Europe are built by small operators that finance their projects through debt. Lehman Brothers, the bank whose collapse was the starter's gun for global panic, was a big financier of wind power. "Lehman Brothers was a sort of a switchboard for the industry," says Peter Kruse of Vestas, the world's biggest wind-turbine manufacturer, "and they didn't pick up the phone any more." A study funded by the German government found that the availability of ten year debt for wind parks had fallen by as much as 40% while the cost of debt relative to benchmark interest rates more than tripled in 2009. The credit squeeze has eased in America, but less so in Europe. Wind farmers in Spain and Portugal find it hard to borrow because of worries that their governments may default or trim subsidies.

The credit crunch may blow over, but two more persistent eddies are also wafting through this market. The first is that the recession has curbed electricity consumption in Europe, both by shuttering plants, some permanently, and by encouraging firms to use power more efficiently. All this will make it easier for most European countries to meet their renewable-energy targets by 2020. Germany and most southern European countries will exceed their targets if they keep building windmills at the current pace, so analysts at HSBC predict cuts in clean-energy subsidies. In America, meanwhile, a proposed cap-and-trade bill got nowhere this year. New wind installations are likely to remain lower than last year's for the next five to ten years, predict analysts at HSBC and Bernstein Research. Low natural-gas prices are also undermining the case for wind power.

Out of puff

Amid the gloom, however, is some respite for the biggest manufacturers. During the boom of the past five years there was a proliferation of small manufacturers and a fragmentation of the market. The market share of Vestas, for instance, slipped from 28% in 2005 to 15% last year. In these leaner times, buyers in Europe and America are placing orders mainly with the biggest firms, since they seem less likely to go bust.

The next year or two will doubtless see mergers and takeovers. Some of the weaker manufacturers will die. Mortality is nothing new in other industries, nor indeed for the birds who blunder into whirling windmill blades. But it comes as a shock to an industry that until now has had a gale in its sails.

Business

The Economist

Corporate governance

Pointers for predators

Proposals to make firms' legal liabilities clearer will make them heavier

Sep 23rd 2010 | NEW YORK

IT IS as if every homeowner were obliged to publish a map showing burglars the easiest way into his house and where his valuables are stored. That is how American businesses view a proposal that the Financial Accounting Standards Board (FASB) floated in July. The FASB wants to force firms to publish detailed information about what they might get sued for and how much it might cost them. This would provide a how-to guide for lawyers looking for targets. The FASB gave companies until September 20th to respond. They have done so, angrily.

Companies being sued already have to say so in financial statements. The new standards go much further. Firms would have to disclose any money set aside for potential settlements; not for each case, but for each type of case. This would reveal to tort lawyers the general area where the richest pickings might be. Such disclosures would have to be updated regularly, thus advertising any changes in a firm's sense of its own vulnerabilities.

Worse, companies would have to keep an eye out even for the "remote" possibility of expensive litigation: for example, by watching scientific journals for findings that could later result in lawsuits. Then, once a proceeding has begun, the FASB rules would have companies reporting expert testimony on the potential liabilities they face. It would also force them to reveal, in certain circumstances, the amount of insurance they have bought to cover potential damages.

An even harsher set of rules was originally floated in 2008, but met a storm of resistance. Businesses thought the FASB had quietly dropped the matter, but it had not. The new rules are scheduled to go into effect on December 15th.

The FASB has received a tiny number of letters supporting its proposals. Some people who are keen on "corporate social responsibility"—green investors, Catholic hospitals and the like—think the new rules will promote transparency. CalPERS, California's enormous public-sector pension fund, is also keen.

But supporters are vastly outnumbered by opponents. Lawyer-wary firms from Chevron to Dr Pepper Snapple Group are aghast. Umbrella groups such as the Business Roundtable, the National Association of Manufacturers and the US Chamber of Commerce are incensed. Lawyers who defend corporations tremble to think how the new rules will tilt the playing field in their disfavour.

Susan Hackett of the Association for Corporate Counsel, who gathered dozens of corporate lawyers' signatures to oppose the new rules, says that while everyone is for transparency, the new rules would require firms to publish what will often be no better than "guesstimates" of future liabilities. Such bad information is worse than none, reckons Ms Hackett. If a firm publishes a high estimate of what a particular type of lawsuit might cost it, no opposing lawyer will settle for less. If it guesses too low, it could be sued for misleading investors. Lawsuits already cost America nearly 2% of GDP, according to Towers Perrin (now Towers Watson), a

consultancy. Others put the tort tax even higher. Why would the FASB want to raise it?

Business

The Economist

Newspapers in India

Where print makes profits

Old-fashioned papers are thriving in India

Sep 23rd 2010 | DELHI

What? It says here that gigantic beards are no longer trendy

ALAN RUSBRIDGER, the editor of the *Guardian*, a British newspaper, told an audience of Indians this month that digital technology was mauling the traditional print newspaper. That is certainly true in rich countries. But since 2005 the number of paid-for Indian daily newspaper titles has surged by 44% to 2,700, according to the World Association of Newspapers. That gives India more paid-for newspapers than any other country.

One reason why the internet has not yet started destroying Indian newspapers is that only 7% of Indians surf the web regularly. “It’s no threat yet,” says Bharat Bhushan, the editor of the *Mail Today*, a joint venture between the *Daily Mail* (another British paper) and *India Today*, an Indian weekly. Nor is television, although the number of channels available via cable and satellite has exploded and more Indians are paying for them.

The headlong growth of Indian newspapers is driven by rising literacy and a booming economy. Granted, only 65% of Indian adults can read—a pitiful figure. But it is nearly twice what it was three decades ago. As India’s middle class swells, firms are splashing out on newspaper advertisements for property, mobile phones, cars and matchmaking services that promise your daughter a computer-savvy hubby.

At less than four rupees ($0.09) a pop, Indian papers are cheap, so many households buy more than one daily. Revenues are driven by advertising, which is buoyant. In the year to March 2010, the amount spent on newspaper ads in India increased by 30%, the swiftest increase in the Asia-Pacific region, according to Nielsen India, a market-research firm. Unlike, say, the *Guardian*, most Indian papers are profitable.

English-language papers, which attract richer readers, charge the most for ad space. The *Times of India*, whose circulation of 4m makes it the world’s biggest English-language newspaper, charges roughly ten times more than regional dailies do. Regional papers rely instead on a steady but less lucrative flow of government ads.

As wealth and literacy spread, however, regional and local-language papers are likely to gain ground. People like to read in their mother tongue. The circulation of Hindi papers rose from less than 8m in the early 1990s to more than 25m last year.

Even more growth may lie ahead. If 200m Indians read a paper daily, that still leaves a billion who don't. The Federation of Indian Chambers of Commerce and Industry, a trade body, and KPMG, a consultancy, predict that in the next four years the newspaper industry's revenues will grow by 9% a year, to $5.9 billion. One day, the internet will start to hurt print. Around 16m Indians visited online news sites in October last year, up by 37% from the previous October. But for now broadband remains beyond the reach of most Indians. And Indian editors' fingers are stained with black ink, not red.

Business

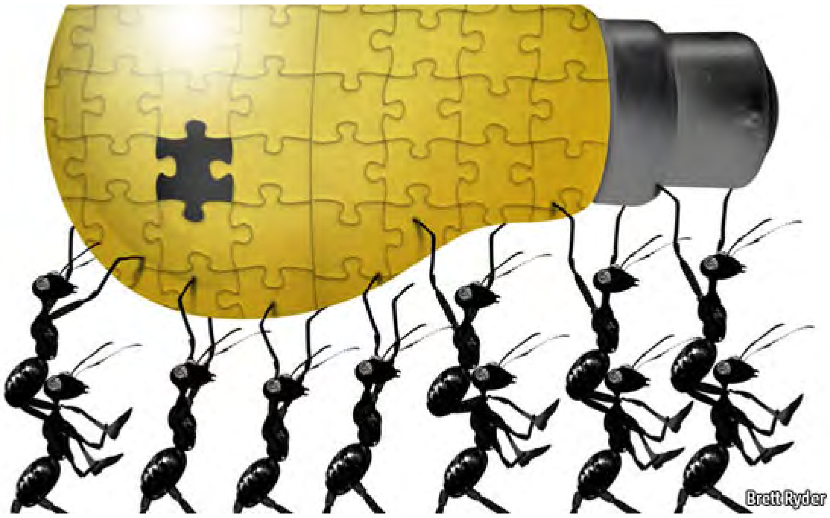
The Economist

Schumpeter

The wiki way

Two cyber-gurus take a second look at how the internet is changing the world

Sep 23rd 2010



AFTER Kenya's disputed election in 2007 Ory Okolloh, a local lawyer and blogger, kept hearing accounts of atrocities. State media were not interested. Private newspapers lacked the money and manpower to investigate properly. So Ms Okolloh set up a website that allowed anyone with a mobile phone or an internet connection to report outbreaks of violence. She posted eyewitness accounts online and even created maps that showed where the killings and beatings were taking place.

Ms Okolloh has since founded an organisation called Ushahidi, which puts her original idea into practice in various parts of the world. It has helped Palestinians to map the violence in Gaza and Haitians to track the impact of the earthquake that devastated their nation in January. It even helped Washingtonians cope with the "snowmaggedon" that brought their city to a halt this year. Ushahidi's success embodies the principles of wikinomics.

Don Tapscott and Anthony Williams coined the term "wikinomics" in their 2006 tome of that name. Their central insight was that collaboration is getting rapidly cheaper and easier. The web gives amateurs access to world-class communications tools and worldwide markets. It makes it easy for large groups of people who have never met to work together. And it super-charges innovation: crowds of people can develop new ideas faster than isolated geniuses and disseminate them even faster.

Mr Tapscott and Mr Williams have now written a follow-up to their bestseller. They solicited 150 suggestions online for a snappy title. The result, alas, was a bit dull: "Macrowikinomics: Rebooting Business and the World". But the book is well worth reading, for two reasons.

The first is that four years is an eternity in internet time. The internet has become much more powerful since "Wikinomics" was published. YouTube serves up 2 billion videos a day. Twitterers tweet 750 times a second. Internet traffic is growing by 40% a year. The internet has morphed into a social medium. People post 2.5 billion photos on Facebook every month. More than half of American teens say they are "content creators". And it is not only people who log on to the internet these days. Appliances do, too. Nokia, for example, has produced a prototype of an "ecosensor" phone that can detect and report radiation and pollution.

The second reason is that the internet's effects are more widely felt every day. In "Wikinomics"

the authors looked at its impact on particular businesses. In their new book they look at how it is shaking up some of the core institutions of modern society: the media, universities, government and so on. It is a Schumpeterian story of creative destruction.

Two of the most abject victims of wikinomics are the newspaper and music industries. Since 2000, 72 American newspapers have folded. Circulation has fallen by a quarter since 2007. By some measures the music industry is doing even worse: 95% of all music downloads are illegal and the industry that brought the world Elvis and the Beatles is reviled by the young. Why buy newspapers when you can get up-to-the-minute news on the web? Why buy the latest Eminem CD when you can watch him on YouTube for free? Or, as a teenager might put it: what's a CD?

Other industries are just beginning to be transformed by wikinomics. The car industry is a model of vertical integration; yet some entrepreneurs plot its disintegration. Local Motors produces bespoke cars for enthusiasts using a network of 4,500 designers (who compete to produce designs) and dozens of microfactories (which purchase parts on the open market and then assemble them). Universities are some of the most conservative institutions on the planet, but the Massachusetts Institute of Technology has now put all of its courses online. Such a threat to the old way of teaching has doubtless made professors everywhere spit sherry onto the common-room carpet. Yet more than 200 institutions have followed suit.

Wikinomics is even rejuvenating the fusty old state. The Estonian government approved a remarkable attempt to rid the country of unsightly junk: volunteers used GPS devices to locate over 10,000 illegal dumps and then unleashed an army of 50,000 people to clean them up. Other governments are beginning to listen to more entrepreneurial employees. Vivek Kundra, now Barack Obama's IT guru, designed various web-based public services for Washington, DC, when he worked for the mayor. Steve Ressler, another American, created a group of web-enthusiasts called Young Government Leaders and a website called GovLoop.

FixTheState.com

How can organisations profit from the power of the web rather than being gobbled up by it? Messrs Tapscott and Williams endorse the familiar wiki-mantras about openness and "co-creation". But they are less starry-eyed than some. They not only recognise the importance of profits and incentives. They also argue that monetary rewards can be used to improve the public and voluntary sectors. NetSquared, a non-profit group, introduced prizes for the best ideas about social entrepreneurship. Public-sector entrepreneurs such as Mr Kundra are excited by the idea of creating "app stores" for the public sector.

Messrs Tapscott and Williams sometimes get carried away with their enthusiasm for the web. Great innovators often need the courage to ignore the crowd. (Henry Ford was fond of saying that if he had listened to his customers he would have produced a better horse and buggy.) Great organisations need time to cook up world-changing ideas. Hierarchies can be just as valuable to the process of creative destruction as networks. But the authors are nevertheless right to argue that the web is the most radical force of our time. And they are surely also right to predict that it has only just begun to work its magic.

Economist.com/blogs/schumpeter

Business

The Economist

How to run the euro

Fixing Europe's single currency

Making the euro area work requires reforms in all its countries, including those with stronger public finances and current-account surpluses

Sep 23rd 2010

HISTORIANS may look back on 2010 as the year when time sped up in continental Europe. A region that has been habitually slow to tackle its economic problems and that puts greater emphasis on reaching “consensus” than on reform has packed a decade’s worth of change into a few short months.

First Greece, the euro zone’s most fiscally incontinent country, was spared from default by a €110 billion ($145 billion) bail-out, mainly from other euro-zone countries, partly from the IMF. As the sovereign-debt crisis threatened Ireland, Portugal, Spain and perhaps others, a €440 billion fund, the European Financial Stability Facility (EFSF), was conjured up in a weekend (with promises of €250 billion more from the IMF) as a backstop for countries should they be shut out of bond markets. The three big ratings agencies gave the EFSF a AAA grade on September 20th.

The European Central Bank (ECB) has since spent more than €60 billion buying the government bonds of troubled euro-area countries to help put a cap on yields and keep markets in these bonds functioning. Countries from troubled Portugal to well-off Germany have set out plans for cutting their budget deficits. Spain has embarked on reforms to free its notoriously rigid jobs market that would have seemed unthinkable a year earlier.

These efforts have staved off the sense of emergency, but the euro zone’s underlying problems are not easily fixed. Investors are again demanding much higher interest rates for holding the debt of the most troubled sovereign borrowers than for German Bunds (see chart 1). Growing awareness of the likely cost of Ireland’s bank rescues is adding to market nerves. Ireland had hoped to limit its budget deficit to around 12% of GDP this year. But the European Union’s statisticians are likely to insist that an injection of capital into state-owned Anglo-Irish Bank should be included in the budget figures. That will increase the ratio to around 20%, maybe more.

Then there are concerns about the unevenness of economic recovery in the currency block. Its GDP grew more than twice as fast as America’s in the second quarter, but that was mostly because of Germany’s best figures since reunification. Austria and the Netherlands, closely tied to the German export machine, also grew strongly. But in Spain and

Portugal growth was feeble and GDP in Greece fell sharply. Because central banks elsewhere are more committed to keeping monetary policy lax (or are intervening directly in foreign-exchange markets), the euro has strengthened against the world's other main currencies, making it harder for the region's exporters to compete (see article).

Against this background, Eurocrats are about to set out detailed plans to fix the euro. On September 29th the European Commission will make recommendations for legislation on the "economic governance" of the euro area. These will inform a subsequent report from a task force led by Herman Van Rompuy, the president of the European Council. Both are likely to concentrate on new strictures to limit government deficits and debts, and to say rather less about tackling the region's growing imbalances. A focus on fiscal discipline seems appropriate given the panic over sovereign debt. But without additional measures to revive the sluggish economies on the periphery of the euro zone, investors will continue to fret about these countries' growing debt burdens—and about the euro itself.

One money, several problems

Why should euro-zone countries agree on fiscal rules, or worry if fellow members' economies are too rigid to foster much growth? After all, it was fear of the bond markets, not strictures from Brussels, that spurred Ireland to slash its budget, Spain to cut civil-service pay and Portugal to raise taxes. "Ministers now look anxiously at their country's bond-market spread against Germany just as their predecessors used to monitor their currency's exchange rate against the D-mark," says Jean Pisani-Ferry of Bruegel, a Brussels think-tank.

The answer is that bond-market vigilantes have not always been this vigilant. They have woken up to the varying risk of sovereign default across the euro zone. But had they stirred sooner, Greece might not have got into such a pickle. And they might one day go back to sleep.

When the euro was being designed, its creators decided, in effect, not to rely on market discipline alone. They assumed that without rules fiscal laxity by one member would impose costs on all. One concern was that deficits would boost spending and so put upward pressure on inflation, and thus on the zone's interest rates. Another, chiefly German, worry was that unchecked deficits would build pressure on the ECB to monetise public debts. A related German nightmare, that countries with sound finances would be forced to bail out the profligate, came true.

The architects of the euro at least predicted such problems, even if they could not solve them. The "stability and growth pact" was supposed to limit each country's budget deficit to 3% of gdp and public debt to 60% of GDP. It failed, in part because France and Germany refused to abide by it—and even rewrote the rules when they breached the deficit limit.

In contrast, the problems that arose because different economies responded differently to the zone's common monetary policy were underestimated. The sudden drop in real interest rates on joining the euro in Greece, Ireland and Spain fuelled huge spending booms. (Portugal had enjoyed its growth spurt in the late 1990s in anticipation of euro membership.) Rampant domestic demand pushed up unit-wage costs relative to those in the rest of the euro area, notably in Germany, hurting export competitiveness (see chart 2) and producing big current-account deficits.

The euro allowed these internal imbalances to grow unchecked and now stands in the way of a speedy adjustment, because euro-area countries whose wages are out of whack with their peers' cannot devalue. For critics of the euro this only points up how far the zone is from being an "optimal currency area". America's regional economies may often

diverge: a drop in oil prices might prompt a consumer boom in California while leaving Texas depressed. But wages and prices are far more flexible in America and workers have generally been more inclined to move from state to state to find work. By contrast, say the sceptics, the economies of the euro area are too diverse to live with the same money and too inflexible to adjust to imbalances when they arise.

That is too pessimistic. The euro's weaknesses can, with difficulty, be addressed and measures can be put in place that should at least mitigate the build-up of similar problems in future. The zone's woes are not unique. Few single countries would meet the academic criteria for optimal currency areas. America has its share of depressed spots—and since almost a quarter of those with mortgages owe more than their houses are worth, America's workers are less mobile than they were. Nor is the euro wholly to blame for the credit booms in parts of the zone. Low interest rates and an underpricing of risk were widespread: credit boomed in many countries—America, Britain, Iceland—with floating exchange rates.

The fiscal fix is in

New rules to encourage fiscal discipline should help the euro area. They will reassure the bond-market vigilantes—and should come in handy if the vigilantes drop off again. Now would be a good time for national governments to adopt home-grown fiscal rules, as Germany already has. And as euro members are to underwrite each other's debts through the EFSF, it is natural that they should demand more say in each other's budgets. European reviews of national budgets for the coming years have already been brought forward by six months. Firmer sanctions, such as withholding of EU funds or suspending members' voting rights in the euro group, may be considered, but they would be politically fraught.

An interactive guide to the EU's debt, jobs and growth worries

If the collective is the ultimate paymaster, should more fiscal power be held centrally, as euro-federalists hope? The vast bulk of taxation and public spending is carried out by individual euro-area countries, and the EU's budget is a tiny 1% of GDP. In America, the federal government collects around two-thirds of all taxes.

In theory, there are good arguments for greater centralisation. It is cheaper and more efficient to raise taxes centrally. And it is also cheaper to borrow that way: no American state on its own could rival the liquidity in the market for Treasuries. A big central budget means that borrowing risks are pooled, too, rather than falling on small, troubled countries such as Greece.

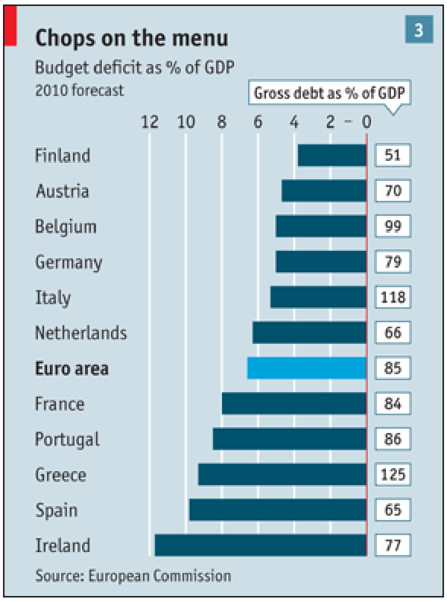
But there are also good arguments against. A country with high unemployment, say, would have less incentive to make its labour market more supple if jobless benefits were financed federally. Anyway, European countries are nowhere near ready to cede so much fiscal autonomy.

Euro-zone countries could try to build their own version of the Treasury market through a common bond issue. Analysts at Bruegel have proposed such a scheme, which might also be used to impose fiscal discipline. Countries would be allowed to issue jointly guaranteed ("blue") bonds but only up to a limit of 60% of their GDP. Additional "red" bonds would be backed only by the standing of the sovereign issuer. Blue bonds would be senior to red ones, which would be subject to an "orderly" restructuring in default.

Such a scheme would be tricky to implement swiftly. Most euro-zone countries' debts are way above the 60% limit and rising each year (see chart 3). So withdrawing the implicit guarantee on

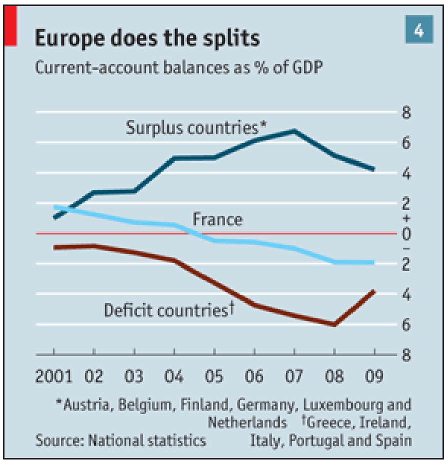
the rest of their bonds would be likely to cause tremors in financial markets. In its favour, the Bruegel idea may be a way to set long-term limits on each country's debt levels. The requirement to meet the terms of a blue bond issue is likely to be a more powerful disciplinary device than penalties from Brussels for missing a fiscal target.

At the height of the sovereign-debt crisis in May, bond markets penalised euro-zone countries, like Greece, whose large budget deficits were adding to an already high stock of public debt. Now investors may have started to worry more about prospects for GDP growth. Sluggish economies cannot sustain a heavy debt burden for ever, and for many countries improving export competitiveness is a harder task than repairing their budgets.



Broadly, there are three ways for a country to restore competitiveness: devaluation (which reduces wages relative to those in other exporting countries), wage cuts or higher productivity. In the euro area, the first option is out. The other two rely on easing job-market rules so that pay matches workers' efficiency more closely, and workers can move freely from dying industries and firms to growing ones. Governments also have to tackle the lack of competition in markets for goods and services, notably in non-tradables (eg, utilities), whose prices affect the costs of other firms, including exporters. A bigger push from Brussels to open services to greater cross-border competition might do far more good than more prescriptions about debts and deficits.

Adjustment by cutting wages is quite brutal, especially without the support of an expansionary fiscal policy. An alternative would be for competitive, trade-surplus countries, such as Germany and the Netherlands, to spend more: the combined deficits of the euro zone's "periphery" are more or less offset by surpluses at the zone's "core" (see chart 4). John Maynard Keynes believed that in a fixed exchange-rate system, the burden of adjustment to trade imbalances should fall equally on deficit and surplus countries. So he proposed that excess trade surpluses should be taxed (see article). A scheme such as this would not be easy to implement: it would be hard to gauge the point at which the saving surpluses of an ageing country like Germany become harmful. But such a proposal would at least put "creditor adjustment" on the agenda.



It is possible to come up with other heretical answers to the euro area's imbalances—for instance, tolerating a higher inflation rate, at least temporarily. Workers are usually reluctant to accept the pay cuts required to regain competitiveness. A higher inflation rate would make it easier for relative wages in different countries to adjust, because a cut in real wages would be easier to disguise with inflation of, say, 4% or 5% than the 2% that the ECB now aims for. But that may embed expectations of permanently higher inflation, which would have to be squeezed out later. And it would be anathema to the ECB, Germany and others. Even in this year of upheaval, it would be an upheaval too far.

Interactive: Explore our guide to Europe's economies at Economist.com/euroeconomy2010

Briefings2

The Economist

A Keynesian prototype

Standard solution

A 69-year-old plan for dealing with imbalances in currency unions

Sep 23rd 2010

ONE weekend in September 1941, John Maynard Keynes sat down in his farmhouse in Tilton to consider how the world's currencies might be managed once the war was over. Within a few days the prolific economist produced two papers. These set out his thoughts on what lay behind the breakdown in the early 1930s of the gold standard, in which currencies were linked at fixed rates to the gold price and so to each other.

For Keynes, the gold standard was not the self-regulating system that its advocates claimed it was. If trade became heavily unbalanced, as it did in the late 1920s, deficit countries were forced to adjust, by raising interest rates to curb demand for imports and cutting wages to restore export competitiveness. This was unduly painful. Wages did not fall naturally when gold (and thus money) was in short supply: they fell in response to higher unemployment. The pain might be eased if countries with trade surpluses spent more on imports, but they were not obliged to do so.

Keynes set out a scheme for a "clearing union" that he believed had the benefits to trade of a fixed exchange-rate system but without the gold standard's shortcomings. At its heart was an international clearing bank (ICB) that would settle the balance of transactions that gave rise to trade surpluses or deficits. Residual balances would be settled by member central banks, but each would have an overdraft facility at the ICB equal to the recent average of its country's exports and imports (its "quota"). The overdraft would afford deficit countries a credit buffer against the abrupt adjustments required under the gold standard.

The scheme would still discipline members with trade deficits. A country that used up more than a quarter of its limit would be allowed to depreciate its currency by 5% against the others. Higher overdrafts would incur an interest charge on a rising scale. A country that breached half its overdraft would be required to devalue, to sell some of its gold to the ICB and to prohibit capital exports. A hopelessly lax country would be expelled from the club.

Keynes's scheme would also require creditors not to hoard their trade surpluses. Countries in persistent credit with the ICB would be allowed (and then required) to revalue their currencies. Credits equal to a quarter of the ICB quota would be liable to a tax of 5%, rising to 10% for credits above half the quota.

This scheme formed the basis of Britain's position in the negotiations in 1944 at Bretton Woods, which created the post-war system of exchange rates. However, Keynes could not secure American support for "creditor adjustment". This was in part because America had both the world's most powerful economy and (like Germany today) a big trade surplus. Britain was an indebted supplicant.

As Robert Skidelsky argues in his biography of Keynes*, this also reflected the contrasting views in America and Britain of the collapse of the gold standard. America associated its earlier prosperity with the standard's stability and the Depression with the system's breakdown. Britain linked the misery of the 1920s to the gold straitjacket and its subsequent recovery to being freed from it. The belief that more discipline for debtors is the cure for imbalances persists, though in Germany rather than America. Now a deficit country, America thinks surplus countries should adjust too.

* “John Maynard Keynes: Fighting for Britain 1937-1946” (Macmillan, 2000)

The Economist

The yuan goes global

A Mao in every pocket

China grapples with a huge potential export: its currency

Sep 23rd 2010 | HONG KONG

CHINA likes to cover large distances in small steps. Last month it said that a few lucky foreign banks, including central banks, could invest some of the yuan they hold offshore in local Chinese bonds. The first to take up the offer was Malaysia's central bank, the *Financial Times* reported this week. With that purchase, another stone was removed in the great wall shielding China's currency from the outside world.

Global currencies emerge sporadically—the dollar in the first half of the 20th century, the euro over the past decade. That China could even have a plausible claim to such a thing is a remarkable turnaround. Its monetary policy and its mints were often in such wretched shape before the 1949 revolution that old Mexican silver dollars still circulated. The very word "yuan" is a contraction of "yang yuan", or "foreign round coin". After the revolution the currency situation got even worse, with ration coupons playing a role in transactions. International deals went through the creaking hands of the Bank of China or, quietly, black markets. It was only in 1994 that a unified, official exchange rate was established.

After solidifying the role of its currency in its domestic market China resisted the next logical step. It kept a tight grip on the flow of capital across its borders. And even as its companies conquered world markets, they priced their goods in other people's money. The limits on conversion allow China's authorities to steer the economy and control business. But this strategy has exposed China's companies to potential foreign-exchange risk, one reason why the authorities are reluctant to let the yuan move more freely against the dollar. It has also deprived China of the easy "seigniorage" profits that come from buying foreign goods and assets in return for non-interest-bearing pieces of paper adorned with portraits of Chairman Mao.

Slowly, however, China seems to be changing its approach. As a result of reforms begun last year, exporters to China can now price their goods in yuan, rather than dollars, and deposit the proceeds in offshore corporate accounts, mostly in Hong Kong. At first the reforms were a flop, says one banker. Few accounts were opened and not much business done.

Offshore accounts offered puny rates of interest because banks could do so little with the money. But as deposits have grown (see chart), so has the number of firms seeking to tap them. In the past two months McDonald's has issued a yuan-based bond in

Hong Kong, as has Hopewell, a property firm. Both were oversubscribed. Banks and the Chinese government itself have also gone to the well.

The off- and onshore markets are still separated by a cliff of controls. Companies cannot borrow yuan from the mainland; they must earn them through trade. Crudely put, yuan flow out of China only if goods or services flow the other way. And offshore yuan do not easily travel back into China either. A currency represents a claim on a country's underlying assets. "The good news is that those assets in China are ever-growing," observes Ronald Schramm, a visiting professor at China Europe International Business School in Shanghai. "The bad news is that with all the restrictions, there are few ways for outsiders actually to cash in on the claim."

Last month's decision to let some banks spend their offshore yuan on local Chinese bonds creates another link between these otherwise parallel universes. It will allow some offshore yuan to climb back onshore in exchange for assets rather than goods. These purchases will be subject to a strict quota but still broaden the menu considerably. The onshore bond market is after all worth $2.9 trillion, 725 times bigger than its nascent offshore rival.

If global trade in yuan does swell, international banks have a good chance of developing other fee-generating, predictable businesses, such as handling letters of credit or payments. And since money on its way from one place to another inevitably pauses, there should be more rises in deposits, which become the stuff of loans.

And yet, for all the financial logic, there is a huge argument going on within the Chinese government about whether to proceed. If foreigners sell their dollars to hold yuan instead they will put upward pressure on the currency, making it harder to "manage" (to use the word China prefers) or "manipulate" (to use the word preferred by its critics; see article).

Despite China's capital controls, the offshore market also affords its firms an alternative source of borrowing. Hong Kong, unlike China, allows almost anyone to issue a bond and repatriating the proceeds "is unlikely to be too challenging," notes a report by Standard Chartered. This may erode the architecture of China's credit system, which allows policymakers to channel funds to favoured firms and projects.

Many foreign bankers, and even some government officials, will say these kinds of changes are necessary and inevitable. Some sort of opening up of capital flows certainly seems to be under consideration. But given the potential consequences, there may be far more talk than action.

Finance and Economics

The Economist

US-China trade relations

Speak less softly, carry a stick

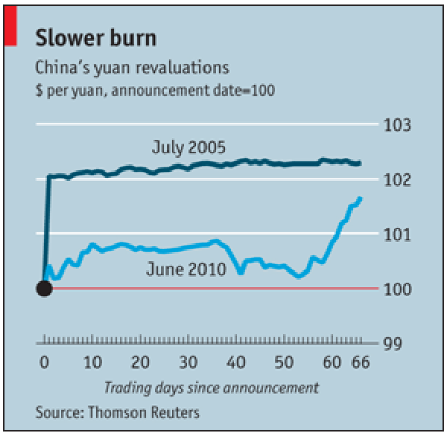
The Obama administration's patience with China wears thin

Sep 23rd 2010 | WASHINGTON, DC

CHINESE officials like to lecture their American counterparts that, when it comes to loosening their tightly controlled currency, pressure is counterproductive. Tim Geithner, the treasury secretary, has resisted direct confrontation with China over the yuan's value. Like his predecessors, he worries that overt pressure would undermine advocates of reform inside China, principally the People's Bank of China, and erode co-operation on other issues such as Iran and North Korea.

When China said in June that the yuan would be allowed more flexibility, it looked like a victory for Mr Geithner. But as weeks elapsed and the yuan stayed put, the critics began to resurface. "We're all coming to the conclusion that they don't believe we're serious," Jack Reed, a Democratic senator, told Mr Geithner on September 16th. "And as a result, they will listen to you politely but they will not take any effective action."

The administration increasingly appears to agree. On September 15th it brought two actions against China at the World Trade Organisation (WTO): one contesting Chinese duties on American exports of a special type of steel used in power generation, and another over discrimination against foreign providers of payment-card transactions. The previous week the United Steelworkers union asked the administration to sue China in the WTO over subsidies of its renewable-energy industry. America has previously ignored such "Section 301" petitions or settled them bilaterally. But Mr Obama may not hold to that pattern, given his ties to unions and a deadline to respond that falls just before the mid-term elections (extensions can be granted).



The government's most potent lever, however, is Congress, where numerous bills aimed at punishing China are in the works. The most important is a bipartisan bill pushed by Tim Ryan and Tim Murphy, Democratic and Republican congressmen respectively, that would subject imports benefiting from an undervalued currency to countervailing or anti-dumping duties. The House of Representatives could vote on the bill as early as next week; Senate prospects are less certain. Mr Geithner has been surprisingly open to the proposal, provided it complies with WTO rules (many experts believe it does not). This is a change from the reactions, ranging from ambivalence to hostility, that similar bills have elicited from the White House in the past.

The tougher tone seems to be working. The yuan began rising earlier this month, though it has not yet matched its progress in 2005, the last time China loosened its grip (see chart). America is not likely to ease off. Having at last got China's attention, it is loth to let it go.

Finance and Economics

The Economist

Currencies

Trial of strength

Will today's currency interventions hurt or help the world economy?

Sep 23rd 2010 | WASHINGTON, DC

TWENTY-FIVE years ago this week, the finance ministers of America, Japan, Britain, France and West Germany met at a swanky New York hotel and agreed to push the dollar down. The "Plaza Accord" laid out a package of co-ordinated policies. The dollar duly fell, by more than 50% against the D-mark and yen by 1987. The deal is still seen as a high-water mark of international monetary co-operation. The appeal of intervention is now rising once again. But this time the trend is unilateral, unco-ordinated and in one direction.

At its meeting on September 21st the Federal Reserve worried aloud about uncomfortably low inflation and made clear it was prepared to do more to help the flagging recovery. The prospect of even looser monetary policy pushed the dollar down sharply: it dipped to its lowest level since March on a trade-weighted basis.

A weaker dollar means stronger currencies elsewhere—the euro hit a five-month high against the dollar on September 22nd. A growing number of countries are determined to stop their currencies from rising. Japan sold about ¥2 trillion ($23.6 billion) on September 15th, its first foray into the currency markets in six years, to stem a surge in the yen that had pushed its nominal rate against the dollar to its highest since 1995. It is not the only rich country to target its exchange rate: in the 15 months to June, Switzerland quadrupled its foreign reserves, to $219 billion, in a bid to stop the franc from rising too fast.

The most active interveners, however, are in the emerging world. China is the extreme case. It has built up $2.45 trillion of reserves thanks to its determination to keep the yuan stable against the dollar. Others have less rigid currencies but still intervene to stem what they regard as excessive upward pressure. Between September 13th and 16th Brazil's central bank bought dollars at a rate of $1 billion a day.

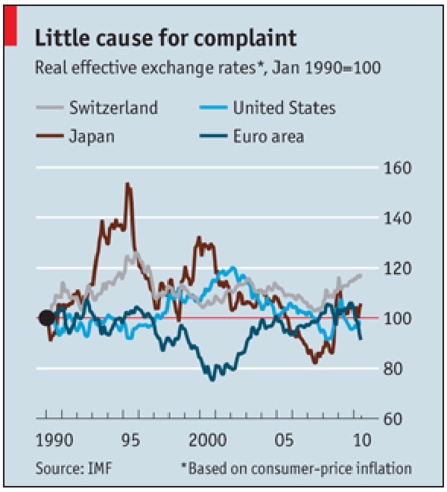
As the recovery slows, a growing number of people worry about a descent into competitive depreciation, as countries try to grab a bigger share of global demand at others' expense, a trend that could fuel protectionism. Optimists, however, argue there may be benefits from today's fad for currency fiddling. One argument is that intervention may be a backdoor route to reflation. If central banks all print money to prevent their currencies appreciating and don't mop up or "sterilise" that liquidity by issuing bonds, then their exchange rates might end up the same but the world will have had a monetary boost in the interim.

The truth lies in between. Although most of the intervening governments have the same goal—to stop their domestic currency from rising—their circumstances and motivations vary widely. China's ongoing determination to fix the yuan is the least defensible and most distortive. Unfortunately, it is also the world's most effective intervener. Thanks to a closed capital account (even if cracks are appearing) and government control over domestic banks, China has been able to buy vast quantities of dollars without fuelling inflation. The central bank issues bills to mop up the liquidity created from buying reserves, which obliging banks hold at low rates.

For most emerging economies, however, intervention is more about coping with volatile capital flows. Thanks in part to rock-bottom interest rates in the rich world, foreign capital is flooding back into emerging economies. By intervening, emerging-market central banks restrain the pace at which their currencies appreciate. But they do so at a price. In countries with freer banking

systems than China's, sterilisation becomes increasingly costly the more reserves are bought. But if the intervention is not sterilised, the added liquidity fuels inflation.

In the rich world, where demand is weak and deflation a risk, the calculus is different. Unsterilised intervention is seen as a route both to counter excessive currency strength and to combat deflation (the prime motive for Swiss intervention). In Japan's case the first argument does not cut much ice. Thanks to Japanese deflation the yen, in real effective terms, is below its average value since 1990 (see chart). The second rationale has some merit provided the Bank of Japan really does resist the urge to mop up any liquidity. But it could achieve the same reflation, without the political risks of unilateral intervention, in other ways.



Those political risks are the best reason to resist going it alone. Not only is there the danger of a protectionist backlash. But unilateralism will also make it much harder to elicit further action from China, the country whose currency regime distorts the global economy most. The rich world needs reflating but the world economy also needs rebalancing. And that demands a weaker dollar. The finance ministers at the Plaza Accord recognised that reality. It is time their G20 successors did, too.

Finance and Economics

The Economist

Buttonwood

Busily going nowhere

Low interest rates have been a mixed blessing for equities

Sep 23rd 2010

Satoshi Kambayashi

IF YOU are the sort of person who does not pay much attention to the daily gyrations of the stockmarket, congratulations. After nearly nine months of volatility, and a deciduous forest's worth of reports by stockbrokers on the outlook for markets, global share prices are back where they were at the start of the year.

All this frenetic activity has doubtless generated lots of income for middlemen in the financial sector. But the clients of stockbrokers have, in aggregate, merely taken home their dividends. And given that the American market is yielding just 2.5%, a lot of that will have been absorbed by fees and commissions.

The lacklustre performance of equity markets in 2010 is symptomatic of the previous decade. A long-term asset-return study by Deutsche Bank found that American equities had delivered slightly negative returns over the ten years up to the end of July.

The factor pulling stockmarkets in different directions this year has been low interest rates. On the one hand, low rates entice investors out of cash and into riskier assets. For example, issuance of American high-yield (or junk) bonds has already reached $168 billion this year, more than was raised in the whole of 2009. Jim Sullivan of Prudential, an American insurance group, says that many institutional investors are drifting up the yield curve, buying investment-grade bonds as an alternative to low-yielding Treasury bonds. Equities have benefited from the same process.

On the other hand, the implication of low interest rates is that the outlook for economic growth, and thus corporate profits, is extremely subdued. The market has suffered a couple of "growth scares" this year, first when the European sovereign-debt crisis was raging in the spring and second, in August, when there was talk of a double-dip recession.

The markets have snapped out of their funk this month. There have been some moderately better data from America on non-farm payrolls and manufacturing activity. The National Bureau of Economic Research said this week that the American recession ended in the summer of 2009.

But the data have been far from universally upbeat. The real boost to confidence may have come from the conviction that the central banks will act again to revive activity. These hopes will have been encouraged by the Federal Reserve's latest statement on September 21st which talked,

unusually for a central bank, of inflation levels “below those the committee judges most consistent over the longer run with its mandate to promote maximum employment and price stability.” In short, inflation is too low.

With rates already near zero the Fed’s remaining policy option is to pursue quantitative easing (QE) in the form of money creation to buy government and corporate bonds. But will that do much to help the American economy? Paul Ashworth of Capital Economics points out that when the Fed stopped its first round of QE Treasury-bond yields were around the same as when it started. Indeed, yields have fallen since the Fed stopped the programme. And Capital Economics’ measure of broad-money supply (M3) fell while QE was in operation.

David Bowers of Absolute Strategy Research nonetheless argues that low rates in the developed world will eventually boost global growth as they are imported by the developing world via managed exchange rates. Asia will come to the rescue of America and Europe. Perhaps. But there are complicating factors, including the potential for international disputes as Asian countries try to manage their exchange rates (see article).

There is also the danger of complacency. Japanese stagnation couldn’t happen here, Western commentators used to argue, because the Japanese were too slow to act, propped up their problem banks, tightened fiscal policy too early and all the rest. Yet history is repeating itself.

Core inflation in America is less than 1%. Two years after the Fed slashed rates almost to zero, ten-year Treasury-bond yields are 2-3%, around the same level as Japanese bonds reached two years after Japan’s short-term rates fell to 0.5%. European governments are tightening fiscal policy well before their economies have recovered output lost in the recession.

The more the economic outlook turns Japanese, the harder it will be for equity markets. American equities may have had a decade of poor returns since the dotcom crash in 2000. Yet Japanese investors have had to endure two decades of frustration (and counting) since the end of Tokyo’s bull market.

Economist.com/blogs/buttonwood

Finance and Economics

The Economist

America's consumer-protection agency

The big guys' lament

Banks have many reasons to worry about the new regulator

Sep 23rd 2010 | NEW YORK

Finance’s other Warren

WHAT does Wall Street have to fear from Elizabeth Warren? The Harvard law professor’s chances of ever being confirmed by the Senate as head of America’s new Consumer Financial Protection Bureau (CFPB) are vanishingly slim. But she is sure to leave her stamp on the agency as a special adviser to the Treasury and president on its launch—an appointment that was announced on September 17th and that requires no congressional approval.

Ms Warren is a divisive figure. She is loved by consumer groups because she leans more towards Joe Sixpack than JPMorgan (witness the pro-Warren rap tune on YouTube, “Got a New Sheriff”). Among right-wing politicians and moneymen, views range from suspicion to loathing. Officially, the big banks say they are looking forward to working with her to ensure that consumers get a fair deal. Some even accept that borrowers were ill-served by the patchwork of regulators charged with looking after them before the crisis. But most banks opposed the CFPB’s creation, fearing it would tie their hands.

Ms Warren faces two main criticisms: that she lacks experience of how the financial industry works, and that she is predisposed to seeing the big banks as devious. She has talked of “tricks and traps” in the fine print of contracts, of Wall Street as an “old boys’ club”, and of the middle class as having been served up to financial firms “as the turkey at the Thanksgiving dinner”.

She has, however, stopped short of calling for bans on specific products, instead emphasising better disclosure. In a sign that she wants to improve relations, she called leading bankers on the day of her appointment. Lenders who attended a meeting on mortgage-disclosure requirements this week, co-chaired by Ms Warren and Tim Geithner, the treasury secretary, said she was keen to hear their views.

Even without Ms Warren at its helm— the agency’s first boss will presumably be chosen before its launch next July—the CFPB unnerves bankers. Some argue that an agency focused on consumers, not overall safety and soundness, could make the financial system less stable. Others fear it might be a bureaucratic monster in the making, and that banks will be caught in the middle as it spars with other agencies. “History tells us regulators will squabble,” says Edward Yingling, head of the American Bankers Association.

The agency is set to have sweeping powers to write and enforce new rules (on top of the 26 acts that, according to CreditSights, a research firm, will come under its auspices) and to levy fines. These powers remain nebulous, despite nearly 200 pages of the Dodd-Frank financial-reform act on the CFPB. It will be able to ban practices that are “unfair”, “abusive” or that “take unreasonable advantage” of consumers.

Furthermore, there are fears that the CFPB, if heavy-handed, could make credit harder to come by. Numerous lenders have already thrown in the towel, partly because of increasing red tape: witness Wells Fargo’s closure of its consumer-finance unit and Citi’s sale of its student-loan

business, announced this month.

Retail banks, meanwhile, are overhauling their pricing models in the face of what Michael Poulos of Oliver Wyman, a consultancy, calls "the Three Horsemen of the Apocalypse": recent or pending restrictions on credit-card, debit-card and overdraft fees. Bank of America is looking to recoup $4 billion in lost revenue through tiered pricing, with high-balance, online customers paying less than those with scant funds who use branches. If others follow, it would reverse the shift to "free" banking over the past decade—largely financed by rising debit-card fees—which made millions of poorer consumers bankable. Protecting the little guy can sometimes have unintended consequences.

Finance and Economics

The Economist

Italian banks

An exit unbecoming

As UniCredit fires its boss, Intesa Sanpaolo sticks to a more cautious path

Sep 23rd 2010

EXITS are sudden in Italian banking. Alessandro Profumo, the chief executive of UniCredit, the country's biggest bank, had just wrapped up a trip to America when he got a call from his chairman informing him the board wanted a change of management. Although Mr Profumo, a former McKinsey man, has spent over a decade reconstructing the firm from a nonentity into a European heavyweight active in Germany, Austria, Turkey and eastern Europe, its governance remains old-school.

The Italian "foundations", non-profit regional organisations that were once dominant shareholders and now own only perhaps 13% of the bank, still, it seems, dominate the board. They were worried about losing influence, particularly since Mr Profumo had attracted lots of foreign shareholders, including, controversially, Libya's central bank and main investment authority, which together own 7.6% of the bank, and an Abu Dhabi-based vehicle with a further 5% stake. The directors also reckoned he was dictatorial.

Dieter Rampl, the German chairman with whom Mr Profumo's relations had soured, will for now take charge. After 15 years with Mr Profumo leading the bank it was probably time for a change, but the incompetence with which it was carried out is both depressing and familiar to students of Italian banks. Mr Profumo is likely to get plenty of job offers outside Italy.

UniCredit was transformed under his watch with the acquisition of HVB, a German firm, in 2005. The deal brought a presence in Germany but also bolstered UniCredit's heft in eastern Europe, making it the bank with the largest presence in the region. Less successful was the decision in 2007 to participate in the wave of consolidation taking place in Italy itself by buying Capitalia, a biggish bank that had been turned around by its management but was also gripped by boardroom warfare. Capitalia has performed reasonably since the acquisition and generated big cost savings, but, looking back, UniCredit overpaid.

Given another year it might have been harder to oust Mr Profumo. By that point bad-debt charges might well have fallen, and, assuming interest rates had risen, there would have been a recovery in the margins that the bank makes on taking deposits, giving a big boost to profits. As things stand, however, some kind of retrenchment seems possible, particularly since the foundations may be reluctant to allow the bank to raise more outside capital to expand its activities abroad.

Sticking to Italy can work. Intesa Sanpaolo, the country's second-biggest bank, was formed through a 2006 merger. Although it has a presence in eastern Europe, it has concentrated more on its home market. It is, its executives like to point out, the only big Western bank that did not raise equity through the crisis; its shares have dropped by about 60% from their high in 2007, compared with about 70% at UniCredit. Corrado Passera, Intesa's chief executive, likes to joke that it has outperformed many peers in Europe by refusing to be a "firework bank", although he also reckons that its shares have been penalised due to the euro-zone crisis, with investors treating it as a proxy for Italy at large.

Whether focusing on Italy alone is a viable long-term strategy is open to debate. The debt boom-and-bust seen in Spain and Britain did not take place in Italy, where the level of household debt remains on the low side and still has potential to rise. But competition may become more intense.

Crédit Agricole, BNP Paribas and Barclays all have Italian retail operations which are subscale and which they hope to expand. Mr Passera is relatively relaxed, arguing that the normalisation of interest rates and bad-debt charges will boost returns on equity and allow the bank to generate lots of cash.

Italy's two big banks have pursued different paths over the past half-decade. It is tempting now to think that they might both reverse course, with the more cautious firm fortified by the past three years and the bold one chastened. Yet there is little sign of Intesa going on a big acquisition spree—its new strategic plan, due early next year, is expected to emphasise efficiency as a priority. And having built a commanding presence across eastern Europe and in Turkey it would be bizarre for UniCredit to withdraw now. Mr Profumo may have been erased; hopefully the same will not happen to his legacy.

Finance and Economics

The Economist

Hedge funds

Tucking in

A rise in deal activity gives succour to merger-arbitrage funds

Sep 23rd 2010 | NEW YORK

HEDGE funds have not had much to savour recently. Choppy markets have caused some funds to experience embarrassing losses or even shut up shop entirely. But a rash of mergers and acquisitions (M&A) is improving the mood among some managers.

Risk appetite returns

Merger-arbitrage funds, a type of hedge fund that profits by betting on actual or rumoured mergers, tend to do better when deal activity rises. Last month was the best August for global M&A on record, according to Dealogic, a research firm. The $1.8 trillion of cash held by American companies suggests that the bids will keep coming. Steven Gerbel, the boss of Chicago Capital Management, a hedge fund, says he is expecting to see an M&A boom similar to the one that took place in the early 1990s, when merger-arbitrage funds "made tremendous amounts of money".

Such funds were up by a modest 3.4% over the first eight months of the year, according to the Hennessee Group, a research firm. But that still makes them among the best-performing funds so far this year: the average hedge fund made a gain of only 1.3% in the same period. Many expect merger-arbitrage funds to deliver even stronger returns over the next few months once more deals reach a conclusion. That's because funds typically make money by betting on whether transactions are completed, buying target firms if they expect acquisitions to succeed, for example, or shorting them if they do not.

Merger-arbitrage funds benefit from lower exposure to volatile equity markets than many of their peers. They also face less competition for returns than they did a few years ago. Many rivals have gone bust. Regulations requiring banks to close their proprietary-trading desks, which were very active in this area, make trades less crowded and spreads more attractive relative to their risk, says J. Tomilson Hill of Blackstone Alternative Asset Management, a fund of hedge funds.

Not all merger-arbitrage funds will be winners. Larger funds may struggle to post strong returns unless deal sizes increase—it is harder for large funds to bet on smaller deals without moving the price. And smaller funds are disadvantaged by the changing geography of dealmaking. M&A in emerging markets has accounted for 30% of deals so far this year, surpassing Europe for the first time ever at this stage of the year. "It is a global business today," says John Paulson, the boss of a large hedge fund. "You have to have a broad capability and a broad skillset to manage these deals."

Merger-arbitrage funds must also woo hungry investors. The gains posted by these funds tend to be more modest than those promised by higher-risk strategies. "I may order merger arbitrage for dessert but I don't want it for my meal," insists one pension-fund manager. Given how many investors have gone without in the past two years, however, some will surely be happy just to have food on the table.

The Economist

Economics focus

The Marmite effect

Habits formed early in life may affect the gains that consumers make from trade

Sep 23rd 2010

A LONDONER with a sudden urge for giant African land snails could do worse than head to the bustling marketplace in Brixton, a part of south London that is home to many people from Africa. A craving for freshwater fish in New Delhi is best met by haggling for the freshest *rohu* with fishmongers in Chittaranjan Park, the heart of the city's fish-loving Bengali community.

Markets that cater to migrants, whether from a different part of the country or from far-flung corners of the globe, are not just great for gourmands. They are also testament to the fact that people often retain very strong preferences for the kinds of food they grew up eating. Just ask the expatriate Britons who flock to "Tea and Sympathy" in New York's Greenwich Village for pots of Marmite, a yeast-based spread whose delights baffle other nationalities (and many of their own compatriots). Such nostalgia is the most obvious example of the influence exerted by loyalty to the brands of your youth. A new study by economists from the universities of Tilburg and Chicago* tracks the consumption patterns of American households over two years and finds striking evidence that such loyalty is widespread, deep and long-lasting.

Past research has shown that people are often willing to pay much more for a favoured brand than for seemingly identical alternatives. It is not always obvious why. For instance, people routinely express a strong liking for a brand that they are unable to tell apart from rivals in blind tests. And many studies have found that advertising alone cannot explain the strength of brand loyalty. So it seems plausible that a person's past may play a role. Someone who spent their formative years in Massachusetts, say, may always hanker for Samuel Adams, a local beer.

The new study finds a clever way to test this idea. The researchers had data on the purchases of 238 kinds of packaged goods by 38,000 American families between 2006 and 2008. For each of the goods in question, the data allowed them to calculate the share of the most-preferred brand as a fraction of the purchases of the two leading brands. Different regions showed a lot of variation: there were clear local patterns in consumption, although the same brands were available everywhere.

But 16% of people studied were migrants: they had grown up in one state and moved to another. They had the same options, in terms of what was on offer and at what price, as everyone else in their adopted home. But although they consumed more local favourites than someone in their

native state would have, they bought fewer local hits (and more of the favourites from back home) than a longtime resident. And this gap between the purchases of migrants and that of the locally born was quite stubborn: although it faded the longer a person lived in their new state, it still took 20 years to halve in magnitude. Even 50 years on, it was still large enough to show up in the data.

If this is generally true, it has important implications. For one thing, the benefits of being the first brand into a market could last longer than might be assumed. But David Atkin of Yale University suggests in another new paper** that the effects of habit formation in consumption may also lead economists to rethink the way they calculate the gains from trade. This is because opening up to trade is in some ways akin to migrating. It changes the composition and prices of the goods that are available to a person. In particular, it can raise the relative prices of the goods that a region or country has a comparative advantage in, such as crops that the country's climate or soil favour. These are the things that would have been relatively cheap and common in a closed economy and therefore the things that people might have acquired a taste for. To the extent that such preferences persist, people will benefit less from the increased variety of goods and altered relative prices that trade brings about than they would do if habits were not a significant determinant of consumption.

Creatures of habit

Mr Atkin uses detailed data about people's food choices in India, which covers a large number of climatic zones which have specialised in different crops. Despite being part of the same country, the preponderance of internal barriers to trade—including border taxes and a maze of state-level regulations—means that its regions are best thought of as being only partially open to trade. As a result, and as Mr Atkin's data show, the foods that a region specialises in producing are indeed cheaper there.

What is more, people in that region show a distinct preference for these "regional specialities". Tracking changes in what Indians eat reveals that, for every rupee spent on food (in a period when the national consumption of calories fell), people's intake of calories declined most in regions where relative-price rises were more concentrated in local favourites. In theory, people should adjust their purchases of food when relative prices change so that they maximise their calorific intake. In practice, food habits meant that consumers kept buying the things they knew they liked even though they were relatively expensive.

Of course, people move between states in India just as they do in America. Mr Atkin's analysis of their food choices suggests that Indian migrants, too, carry their food preferences with them. As a consequence, migrant families consume fewer calories per rupee of food expenditure than non-migrants do. Economists have shown that liberalising trade increases incomes by enabling specialisation. But because people are creatures of habit the effects of a given increase in income on people's well-being will be smaller than if people's tastes adjusted immediately. At least the world's cities have more interesting markets as a result.

* "The Evolution of Brand Preferences: Evidence from Migration", by Bart Bronnenberg, Jean-Pierre Dubé and Matthew Gentzkow. NBER Working Paper No. 16267, August 2010

** "Trade, Tastes and Nutrition in India", by David Atkin. Working paper available at www.econ.yale.edu

Finance and Economics

Correction: Ireland

Sep 23rd 2010

Our table on Ireland's public finances ("Bank rupture", September 12th) contained a typo. Our forecast of the costs of bank recapitalisation would increase Ireland's public debt by 18.9% of GDP by 2015, not 8.9%. The other figures in the table, including the totals, were correct. Sorry. This has been corrected online.

Finance and Economics

The Economist

The biology of business

Homo administrans

Biologists have brought rigour to psychology, sociology and even economics. Now they are turning their attention to the softest science of all: management

Sep 23rd 2010

SCURRYING around the corridors of the business school at the National University of Singapore (NUS) in his white lab coat last year, Michael Zyphur must have made an incongruous sight. Visitors to management schools usually expect the staff to sport suits and ties. Dr Zyphur's garb was, however, no provocative fashion statement. It is *de rigueur* for anyone dealing with biological samples, and he routinely collects such samples as part of his research on, of all things, organisational hierarchies. He uses them to look for biological markers, in the form of hormones, that might either cause or reflect patterns of behaviour that are relevant to business.

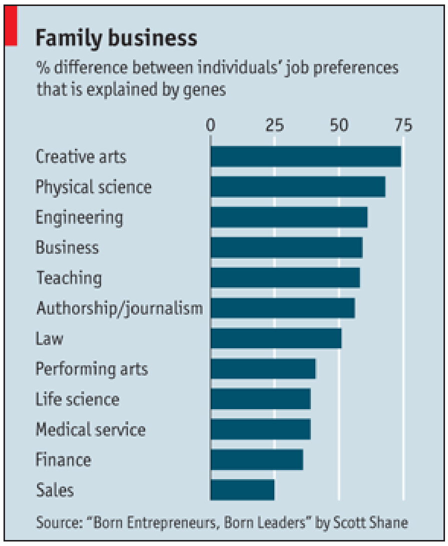
Since its inception in the early 20th century, management science has been dominated by what Leda Cosmides and John Tooby, two evolutionary psychologists, refer to disparagingly as the standard social science model (SSSM). This assumes that most behavioural differences between individuals are explicable by culture and socialisation, with biology playing at best the softest of second fiddles. Dr Zyphur is part of an insurgency against this idea. What Dr Cosmides and Dr Tooby have done to psychology and sociology, and others have done to economics, he wants to do to management. Consultants often talk of the idea of "scientific" management. He, and others like him, want to make that term meaningful, by applying the rigour of biology.

To do so, they will need to weave together several disparate strands of the subject—genetics, endocrinology, molecular biology and even psychology. If that works, the resulting mixture may provide a new set of tools for the hard-pressed business manager.

To the management born

Say "biology" and "behaviour" in the same sentence, and most minds think of genetics and the vexed question of nature and nurture. In a business context such questions of heredity and environment are the realm of Scott Shane, a professor of management at Case Western Reserve University in Ohio. In a recent book*, Dr Shane proffers a review of the field. Many of his data come from studies of twins—a traditional tool of human geneticists, who are denied the possibility of experimental breeding enjoyed by their confrères who study other species, such as flies and mice.

Identical twins share all of their DNA. Non-identical twins share only half (like all other siblings). Despite a murky past involving the probable fabrication of data by one of the field's pioneers, Sir Cyril Burt, the science of comparing identical with non-identical twins is still seen as a good way of distinguishing the effects of genes from those of upbringing.



The consensus from twin studies is that genes really do account for a substantial proportion of the differences between individuals—and that applies to business as much as it does to the rest of life. Dr Shane observes genetic influence over which jobs people choose (see chart), how satisfied they are with those jobs, how frequently they change jobs, how important work is to them and how well they perform (or strictly speaking, how poorly: genes account for over a third of variation between individuals in "censured job performance", a measure that incorporates reprimands, probation and performance-related firings). Salary also depends on DNA. Around 40% of the variation between people's incomes is attributable to genetics. Genes do not, however, operate in isolation. Environment is important, too. Part of the mistake made by supporters of the SSSM was to treat the two as independent variables when, in reality, they interact in subtle ways.

Richard Arvey, the head of the NUS business school's department of management and organisation, has been looking into precisely how genes interact with different types of environment to create such things as entrepreneurial zeal and the ability to lead others. Previous research had shown that people exhibiting personality traits like sensation-seeking are more likely to become entrepreneurs than their less outgoing and more level-headed peers. Dr Arvey and his colleagues found the same effect for extroversion (of which sensation-seeking is but one facet). There was, however, an interesting twist. Their study—of 1,285 pairs of identical twins and 849 pairs of same-sex fraternal ones—suggests that genes help explain extroversion only in women. In men, this trait is instilled environmentally. Businesswomen, it seems, are born. But businessmen are made.

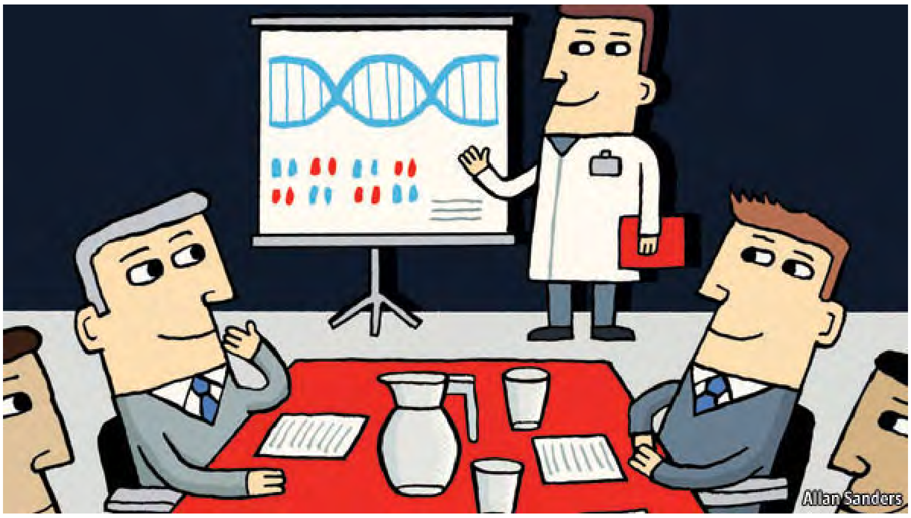
In a second twin study, this time just on men, Dr Arvey asked to what extent leaders are born, and to what extent they are made. Inborn leadership traits certainly do exist, but upbringing, he found, matters too. The influence of genes on leadership potential is weakest in boys brought up in rich, supportive families and strongest in those raised in harsher circumstances. The quip that the battle of Waterloo was won on the playing fields of Eton thus seems to have some truth.

Pathways to success

Twin studies such as these point the way, but they provide only superficial explanations of what is going on. To get at the nitty gritty it is necessary to dive into molecular biology. And that is the province of people like Song Zhaoli, who is also at the NUS.

One way genes affect behaviour is through the agency of neurotransmitters, the chemicals that carry messages between nerve cells. Among these chemicals, two of the most important are dopamine and serotonin. Dopamine controls feelings of pleasure and reward. Serotonin regulates mood. Some personality traits have been shown to depend on the amounts of these neurotransmitters that slosh around the junctions between nerve cells. Novelty-seeking, for example, is associated with lots of dopamine. A tendency to depression may mean too little

serotonin. And the levels of both are regulated by genes, with different variants of the same underlying gene having different effects.



Recent years have seen a surge of research into the links between particular versions of neurotransmitter-related genes and behavioural outcomes, such as voter turnout, risk-aversion, personal popularity and sexual promiscuity. However, studies of work-related traits have hitherto been conspicuous by their absence.

Dr Song has tried to fill this gap. His team have gathered and analysed DNA from 123 Singaporean couples to see if it can be matched with a host of work-related variables, starting with job satisfaction.

In this case Dr Song first checked how prone each participant in the study was to the doldrums, in order to establish a baseline. He also asked whether they had experienced any particularly stressful events, like sustaining serious injury, getting the sack or losing a lot of money, within the previous year. Then he told participants to report moments of negative mood (anger, guilt, sadness or worry) and job satisfaction (measured on a seven-point scale) four times a day for a week, using a survey app installed on their mobile phones.

He knew from previous research that some forms of melancholia, such as seasonal affective disorder (or winter blues), have been linked to particular versions of a serotonin-receptor gene called *HTR2A*. When he collated the DNA and survey data from his volunteers, he found those with a particular variant of *HTR2A* were less likely than those carrying one of its two other possible variants to experience momentary negative mood, even if they had had a more stress-ridden year. Dr Song also found that when carriers of that same variant reported lower negative mood, they also tended to report higher job satisfaction—an effect which was absent among people who had inherited the remaining two versions of the gene.

This suggests that for people fortunate enough to come equipped with the pertinent version of *HTR2A*, stressful events are less likely to have a negative effect on transient mood. What is more, for these optimists, better mood turns out to be directly related to contentment with their job. In other words, it may be a particular genetic mutation of a serotonin-receptor gene, and not the employer's incentives, say, that is making people happier with their work.

The hormonal balance-sheet

Neurotransmitters are not the only way an individual's genetic make-up is translated into action. Hormones also play a part. For example, oxytocin, which is secreted by part of the brain called the hypothalamus, has been shown to promote trust—a crucial factor in all manner of business dealings. The stress hormone cortisol, meanwhile, affects the assessment of the time value of money.

That, at least, was the conclusion of a study by Taiki Takahashi of Hokkaido University in Japan.

After taking saliva samples from 18 volunteers, Dr Takahashi asked them what minimum amount of money they would accept in a year's time in order to forgo an immediate payout of ¥10,000 (around $90 at the time). He found those with a lower base level of the hormone tended to prefer immediate payment, even when the sum in question was piffling compared with the promised future compensation.

Then there is testosterone, the principal male sex hormone (though women make it too). The literature on this hormone's behavioural effects is vast. High levels of the stuff have been correlated with risk tolerance, creativity and the creation of new ventures. But testosterone is principally about dominance and hierarchy. This is where Dr Zyphur's mouth swabs come in.

When Dr Zyphur (who is now at the University of Melbourne) was at the NUS, he led a study of how testosterone is related to status and collective effectiveness in groups. He and his colleagues examined levels of the hormone in 92 mixed-sex groups of about half a dozen individuals. Surprisingly, a group member's testosterone level did not predict his or her status within the group. What the researchers did discover, though, is that the greater the mismatch between testosterone and status, the less effectively a group's members co-operate. In a corporate setting that lower productivity translates into lower income.

Testosterone crops up in another part of the business equation, too: sales. It appears, for instance, to be a by-product of conspicuous consumption. In an oft-cited study Gad Saad and John Vongas of Concordia University in Montreal found that men's testosterone levels responded precisely to changes in how they perceived their status. Testosterone shot up, for example, when they got behind the wheel of a sexy sports car and fell when they were made to drive a clunky family saloon car. The researchers also reported that when a man's status was threatened in the presence of a female by a display of wealth by a male acquaintance, his testosterone levels surged.

As Dr Saad and Dr Vongas point out, a better understanding of this mechanism could help explain many aspects both of marketing and of who makes a successful salesman. Car salesmen, for example, are stereotypically male and aggressive, which tends to indicate high levels of testosterone. Whether that is really the right approach with male customers is, in light of this research, a moot point.

Natural selection

Results such as these are preliminary. But they do offer the possibility of turning aspects of management science into a real science—and an applied science, to boot. Decisions based on an accurate picture of human nature have a better chance of succeeding than those that are not. For instance, if job satisfaction and leadership turn out to have large genetic components, greater emphasis might be placed on selection than on training.

Not everyone is convinced. One quibble is that many investigations of genetics and behaviour have relied on participants' retrospective reports of their earlier psychological states, which are often inaccurate. This concern, however, is being allayed with the advent of techniques such as Dr Song's mobile-sampling method.

Another worry is that, despite the fact that most twin studies have been extensively replicated, they may be subject to systematic flaws. If parents exhibit a tendency to treat identical twins more similarly than fraternal ones, for instance, then what researchers see as genetic factors could turn out to be environmental ones.

That particular problem can be examined by looking at twins who have been fostered or adopted apart, and thus raised in separate households. A more serious one, though, has emerged recently. This is that identical twins may not be as identical as appears at first sight. A process called epigenesis, which shuts down genes in response to environmental prompts, may make

their effective genomes different from their actual ones.

Statistically, that would not matter too much if the amount of epigenesis were the same in identical and fraternal twins, but research published last year by Art Petronis of the Centre for Addiction and Mental Health in Toronto and his colleagues, suggests it is not. Instead, identical twins are epigenetically closer to each other than the fraternal sort. That means environmentally induced effects that are translated into action by this sort of epigenesis might be being confused by researchers with inherited ones.

Still, this and other concerns about the effectiveness of the new science should pass as more data are gathered. But a separate set of concerns may be increased by better data. These are those of an ethical nature, which pop up whenever scientists broach the nature-nurture nexus. Broadly, such concerns divide into three sorts.

The first involves the fear that genetic determinism cheapens human volition. But as Dr Shane is at pains to stress, researchers like him are by no means genetic fatalists. He draws an analogy with sports wagers. Knowing that you have the favourable version of a gene may shift the odds somewhat, but it no more guarantees that you will be satisfied with your job than knowing of a player's injury ensures that you will cash in on his team's loss. Indeed, it might be argued that a better understanding of humanity can help direct efforts to counteract those propensities viewed as detrimental or undesirable, thus ensuring people are less, rather than more, in thrall to their biology.

The second set of ethical worriers are those who fret that biological knowledge may be used to serve nefarious ends. Whenever biology meets behaviour the spectre of social Darwinism and eugenics looms menacingly in the background. Yet, just because genetic information can serve evil ends need not mean that it has to. Dr Shane observes that pretending DNA has no bearing on working life does not make those influences go away, it just makes everyone ignorant of what they are, "Everyone, that is, except those who want to misuse the information."

The third ethical qualm involves the thorny issue of fairness. Ought employers to use genetic testing to select their workers? Will this not lead down a slippery slope to genetic segregation of the sort depicted in the genetic dystopias beloved of science-fiction?

This pass, however, has already been sold. Workers are already sometimes hired on the basis of personality tests that try to tease out the very genetic predispositions that biologists are looking for. The difference is that the hiring methods do this indirectly, and probably clumsily. Moreover, in a rare example of legislative foresight, politicians in many countries have anticipated the problem. In 2008, for example, America's Congress passed the Genetic Information Nondiscrimination Act, banning the use of genetic information in job recruitment. Similar measures had previously been adopted in several European countries, including Denmark, Finland, France and Sweden.

Biohazard?

There is one other group of critics. These are those who worry that applying biology to business is dangerous not because it is powerful, but because it isn't. To the extent they are genetic at all, behavioural outcomes are probably the result of the interaction of myriad genes in ways that are decades from being fully understood. That applies as much to business-related behaviour as to behaviour in any other facet of life.

Still, as Dr Zyphur is keen to note, not all academic work has to be about hard-nosed application in the here and now. Often, the practical applications of science are serendipitous—and may take a long time to arrive. And even if they never arrive, understanding human behaviour is just plain interesting for its own sake. "We in business schools often act like technicians in the way we conceptualise and teach our topics of study," he laments. "This owes much to the fact that a

business school is more like a trade school than it is a part of classic academia." Now, largely as a result of efforts by Dr Zyphur and others like him, management science looks set for a thorough, biology-inspired overhaul. Expect plenty more lab coats in business-school corridors.

*"Born Entrepreneurs, Born Leaders. How Your Genes Affect Your Work Life". Oxford University Press. $29.95

Science and Technology

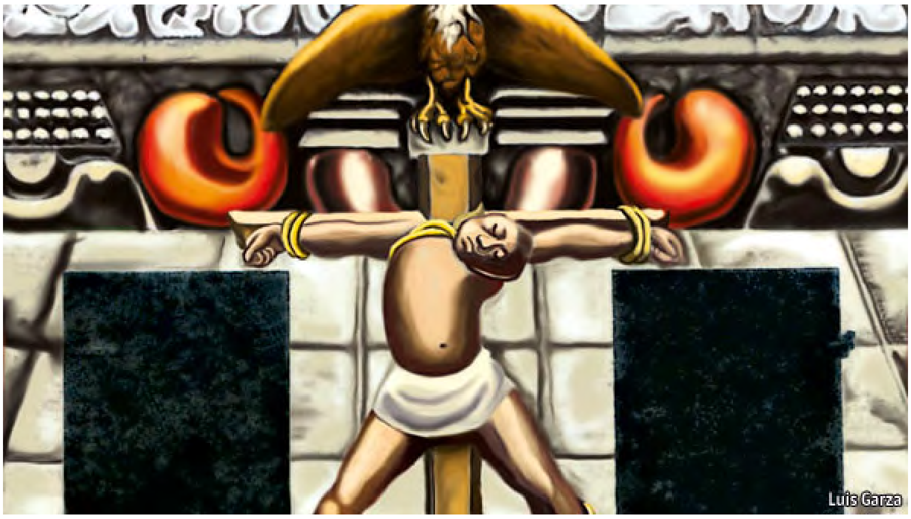
The Economist

Art and politics

How a young revolutionary fooled the city elders

A new exhibition in Los Angeles tells the story of the Mexican artist who pioneered political murals in the United States

Sep 23rd 2010 | LOS ANGELES



Luis Garza

THEN, as now, the economy was depressed and America was deporting Mexicans in droves. The year was 1932 and David Alfaro Siqueiros, a Mexican artist who now ranks with Diego Rivera and Jose Clemente Orozco as one of the three great Mexican muralists of the last century, arrived in Los Angeles. His visit was to prove unexpectedly short (seven months), but consequential. The tale is documented in an exhibition that has just opened at the Autry in Griffith Park in the city.

Like Rivera, who was ten years older and a mentor until the two fell out over politics, Siqueiros was a Communist. After Mexico's revolution he founded a union and may also have plotted to kill the president. That had landed him in jail. He was now planning to go into exile in America.

Sponsored by some rich white art-lovers in Los Angeles, Siqueiros arrived in the city to teach at its art school. There he experimented with new industrial tools and made a breakthrough. Murals at this time were still painted indoors, with essentially the same fresco techniques that Michelangelo had used. But Siqueiros, using spray guns, blowtorches and projection systems, turned an entire cement façade into an outdoor mural.

This came to the attention of a wealthy widow, Christine Sterling. She had a romantic notion of Los Angeles's Mexican past and was in the process of restoring the city's historic centre, Olvera Street. She imagined a Latino park full of haciendas and adobes, guitars and castanets. So, for the appropriate visuals, she commissioned the Mexican artist who had just worked out a way to paint outdoor murals.

The mural's title was to be "América Tropical", its theme a jungle paradise of parrots and fruits and blissfully capering Mexicans and Americans. Siqueiros thought about it. "How were the tropics?" he asked himself, and concluded that they were "exploited by the allied bourgeoisie" led by imperialist America. He also noticed that his allotted wall faced the city's tallest building at the time, City Hall. Time to send a message.

He did not finish the mural until 1am on the morning of its unveiling. When that happened, the city's elite gaped in horror. There on the wall they beheld an indigenous Latin American crucified beneath a domineering American eagle, a Mayan temple crumbling in the background. Two revolutionary warriors armed with guns perched at the edge on a red platform, ready to begin the

fight (the middle portion of this mural is shown above).

The high society of Los Angeles was outraged, and Mrs Sterling mortified. The mural, like the painter's one at the art school, was swiftly whitewashed. When Siqueiros applied to renew his visa it was promptly denied. So he left, his murals seemingly destined to be forgotten.

But they were not. In the 1960s the civil-rights movement swept the United States, and the Latino equivalent of Martin Luther King was César Chávez, who founded a union for farm workers and mobilised America's *Chicanos* (American-born Mexicans). The artists in his movement were looking for inspiration. They found it under the whitewashed walls.

Using both the techniques and the style of Siqueiros's murals, *Chicanos* started painting the walls of Los Angeles, changing its look permanently. The mural culture then spread to other places in California and to the rest of the country. Philadelphia might today be described as its epicentre. And so, from beneath the whitewash, re-emerged the art that defied censorship, mocked the patronising American taste for Mexican curio knick-knacks, indicted American excesses south of the border and encouraged, then as now, the many Latinos who live in America's shadows.

The exhibition, "Siqueiros in Los Angeles: Censorship Defied" relates this strange bit of history with over 100 paintings, murals, drawings, newspaper articles and film clips. Visitors start in a claustrophobic room that documents Mexican history during the revolution. They then move into progressively larger and more open streetscapes leading at last to the modern city, bustling with its mural art.

The curator, Luis Garza, met Siqueiros once, in 1971. Mr Garza was a young radical *Chicano*; Siqueiros was ageing but still a Communist. The two men exchanged vodka shots through the night, talking art and politics. Mr Garza believes that he was forever changed by this brief contact.

Books and Arts

The Economist

Britain in the 1970s

Worst of times, best of times

Sep 23rd 2010

State of Emergency: The Way We Were. Britain, 1970–1974. By Dominic Sandbrook. *Allen Lane; 768 pages; £30. Buy from Amazon.co.uk*

AS PRIME MINISTERS, Edward Heath and Gordon Brown had quite a lot in common. Both were monstrously self-centred, permanently grumpy and capable of astonishing rudeness. Both of their relatively short-lived premierships ended in humiliating failure. In a recent poll of academics on Britain's best and worst prime ministers since the second world war, Heath came ninth out of twelve and Mr Brown tenth. But that is where the similarities end. Whereas Mr Brown was largely the author of his own misfortunes (the banking crash apart), Heath, as Dominic Sandbrook reminds us in his splendidly readable new history of Britain during the four years from 1970, was faced with a set of problems whose intractability and nastiness would have overwhelmed even a far more gifted politician.

Heath both appals Mr Sandbrook and elicits his sympathy. Tory mythology still insists that many of Heath's difficulties arose from his U-turn when he abandoned the free-market ideas with which he entered office and embraced an already discredited and peculiarly British form of corporatism the moment the going got rough. The truth is that although Heath had tried to present himself as the champion of ruthless neoliberalism, he was always at heart a "one nation" Tory with little appetite for the kind of confrontation his successor as Conservative Party leader, Margaret Thatcher, relished. His burning desire was to modernise Britain and to arrest its economic decline through efficiency, pragmatic problem-solving and, above all, by joining the European Community.

When things started to go wrong, as they did almost immediately when council workers went on strike in October 1970 (a foretaste of the "winter of discontent" eight years later), Heath quickly buckled to the prevailing conventional political and economic wisdom. Failing industries were bailed out or nationalised. And as the government pumped up demand in a bid to contain rising unemployment, a succession of baroque incomes policies were conceived to keep a lid on inflation.

Then there was Heath's sheer bad luck: the bleeding sore of Northern Ireland; the world financial crisis caused by the slow collapse of Bretton Woods; the first oil shock in 1973. The government lurched from one crisis to another: so great was the sense of turmoil that on five separate occasions Heath declared a state of emergency, a record for a peacetime prime minister. The last of these, brought about by a miners' strike and the ensuing three-day week, triggered an early election and the hollow victory of a demoralised Labour Party in thrall to its union paymasters and powerless to oppose the growing influence of left-wingers in the constituencies. Its leader, Harold Wilson, was already ailing and bereft of ideas about how to govern ungovernable Britain.

As in his two earlier books, "Never Had It So Good" and "White Heat", which respectively chronicled the period of Harold Macmillan's ascendancy after Suez and the first Wilson government, Mr Sandbrook employs a formula that weaves together politics and economics with a lively account of what was going on socially and culturally. He deals with the beginnings of the green movement, both its good points and its pessimistic rejection of growth and modernity; the onward march of feminism; changing tastes as reflected by television, fashion and holidays abroad; the more relaxed attitudes towards sexuality brought about in part by the widespread

availability of the pill to young, unmarried women and the decriminalisation of homosexuality a few years earlier.

Some readers will find the way the author flits about tiresome, but given that he was born only in 1974 his almost pitch-perfect ability to recreate the mood and atmospherics of the time is remarkable. He does not lose sight of the fact that although the 1970s are now seen as a nadir in Britain's post-war fortunes, for the majority of people it was nonetheless a time of growing affluence, widening horizons and personal liberation. Many of the positive developments that are associated with the supposedly wonderful 1960s did not gain traction until a decade later. Viewed from a distance, Britain in the 1970s looks ghastly—angry, decaying, on the skids. But that is not the whole story.

Mr Sandbrook compares this turbulent period with the four years between 1910 and 1914 described by George Dangerfield in "The Strange Death of Liberal England". As he says: "Dangerfield's story was one of political ferment and economic turmoil, of challenges to the moral order and rebellions against traditional gender roles, of Utopian socialism and Irish sectarianism—all rooted, like the challenges of the early 1970s, in profound historical trends that no government could possibly control." Thankfully, the discontent of the 1970s did not end in world war, but continued, mostly unresolved, until the arrival of Lady Thatcher in 1979. That may pose a problem for Mr Sandbrook's next book, which will be an account of the second half of the decade. In many ways it was more of the same, but without a central character as oddly compelling and sad as Heath.

Books and Arts

The Economist

African travel

Seeking the soothsayers

Sep 23rd 2010

The Masque of Africa: Glimpses of African Belief. By V.S. Naipaul. *Knopf; 256 pages; $26.95. Picador; £20. Buy from Amazon.com, Amazon.co.uk*

Grumpy old traveller

A CLUE to the rather meagre fare offered by V.S. Naipaul's latest book can be found in the title: "masque" allows the writer to sound off; "glimpses" absolves him of having to work too hard. The lackaday reporting is offputting. A Nobel laureate who likes to penetrate the poorer bits of the world, Sir Vidia's descriptions of taxi journeys dominate over interviews.

The author starts by noting that he spent five months in Uganda in 1966 (at Makerere University in the capital, Kampala). He seems to hold it against Uganda that it has changed in his absence: the green hills of Kampala are built over, the slopes littered with "moraines" of rubbish: "It seemed to me that I was in a place where a calamity had occurred."

So it goes for the other countries he visits—Nigeria, Ghana, Côte d'Ivoire, Gabon and South Africa. His aim is to uncover pre-colonial spiritual and magical beliefs. But the Africa he sees is a pretty filthy place. The shrines are "lavatorial and disagreeable". The villagers "make scratchings in the bush". When he does track down soothsayers he is disappointed or bored and worries about how much they are going to charge him. In contrast to the fearless Victorian explorers he quotes, Sir Vidia frets that one herbalist may have cursed him with a nose tickle.

There is little of African children here (Sir Vidia thinks the continent over-peopled) but much about cats. Observations are often interrupted by the appearance of a kitten. A visit to Jerry Rawlings begins promisingly, with the former military ruler of Ghana striding like a boxer, reading-glasses at the tip of his nose. Then, among the pot plants, the author is distracted by "a grey and white kitten, self-possessed, of great beauty…the first happy kitten I had seen in Ghana." This makes him "prejudiced in favour of the house",

He could have made his central point—that Africans often have an interior (or parallel) spiritual life of sacrifices and sacred groves—more convincingly in 1966. A lot has changed in African beliefs since then. Anglicans, Methodists, Presbyterians and some Roman Catholics have lost ground to the magical money gospel of Pentecostalism. Nationalist, pan-Africanist and Marxist movements have been usurped by Bible classes of a literalist and aspirational tone. Sir Vidia does not address this. Even in Nigeria, where Pentecostalists have profitably fused the Christian and traditional spirit worlds, he cannot bring himself to attend a church service. Similarly, he makes little mention of the new Islamist awareness among African Muslims.

Sir Vidia's refusal to see the suppleness of Africa—its musicality, violence and virility—may strengthen the hand of critics who argue that his non-fiction (as opposed to his marvellous fiction) is misanthropic and out of touch. Yet he does caustically capture a hard truth: the nature and traditions of Africa are being "nibbled" away, leaving a detritus (of many kinds) that has to be sloughed off in order for a healthier and more African Africa to move ahead.

The Economist

Seamus Heaney's poetry

The squat pen rests

Sep 23rd 2010

A celebration of the everyday

Human Chain. By Seamus Heaney. *Farrar, Straus and Giroux; 85 pages; $24. Faber & Faber; £12.99. Buy from Amazon.com, Amazon.co.uk*

Observer of everyday miracles

THIS is the 12th book of poems in about 50 years of writing by a great Northern Irish poet who is now in his eighth decade, and who recently recovered from a serious illness. Ageing and that brush with death have profoundly marked this new collection by Seamus Heaney. The change has stripped the poetry back to spare concentration on the small things of life—an old suit, the filling of a fountain pen, the hug that didn't happen—which then open up to ever fuller significance, the more closely they are examined.

It has also made the poems easier to engage with: there are no puzzling Ulsterisms, for instance. Complications have been tossed aside. Words are no longer delved into for their etymological significance as they were in the 1970s. Now they are caressed for their mellifluousness. The collection feels personal—as if it had a compelling need to be written.

A decade and a half ago Mr Heaney told *The Economist* that once the evil banalities of sectarianism seemed to be receding, his verse was able to admit the "big words" with which poetry had once abounded: soul and spirit, for example. In this collection both are present, at some level. The words describing a simple act—the passing of meal in sacks by aid workers onto a trailer—in the title poem, "Human Chain", transform this 12-line poem into a kind of parable. There is the collective, shared human burden of the act itself—the "stoop and drag and drain" of the heavy lifting—and then there is the wonderful letting go: "Nothing surpassed/That quick unburdening." Is the poet talking about the toil of life, and the aftermath of that toil?

The poems snatch precious remembered moments. They linger over the sweetness of particulars—vetch, the feel of an eel on a line. They pay attention to the heightened ritual of everyday things. The lines are short but move at a gentle pace and need to be read slowly, as the verse drifts back and forth over its country setting like a long-legged fly on a stream.

Above all, and this is an odd thing to say of words on a page, the book feels like handcrafted work. Time and again Mr Heaney returns to the image of the pen. He began his long career writing of such a pen, nestling snug as a gun between finger and thumb. The gun, we hope, is history. The pen still nestles, fruitfully.

Books and Arts

Saving trees in Amazonas

A well-hugged lot

A lesson for others

Sep 23rd 2010

Sustainable Development in Practice: Lessons Learned From Amazonas. By Virgilio Viana. *International Institute for Environment and Development; 60 pages; $20 and £13.50 or free online. By from Amazon.com, Amazon.co.uk*

DEEP in the Amazon rainforest, a strong bid is being made to save the trees. Between 2003 and 2009, the deforestation rate of Amazonas, Brazil's most forested state, which has more rainforest than any country save Brazil itself, dropped by 70%.

This success was partly for reasons that have little to do with Amazonas. Over the same period, the federal government improved its enforcement of forest laws. Global demand for Brazil's agricultural commodities, rivals for forestland, also dipped. Thus the country's overall deforestation rate also slumped. But few have championed this change as effectively as Amazonas's rulers, led by the state's former governor, Eduardo Braga, and his environment secretary, Virgilio Viana.

According to Mr Viana, their ambition was to change the way the rainforest was viewed: to make it an economic opportunity, not an impediment to progress. To encourage this shift, they issued a raft of incentives for forest conservation, such as tax breaks for non-timber forest products like rubber, palm hearts and nuts.

Their most ambitious tree-hugging scheme, the *Bolsa Floresta*, or forest bursary, is a cash transfer—of around $6,500 a month for communities and $30 for families—for forest-dwellers who swear not to cut trees. Partially paid for by Bradesco, one of Brazil's biggest private banks, this is a useful pilot project for REDD, the burgeoning international effort to reduce deforestation and the greenhouse-gas emissions it causes. REDD is now being launched with $4.5 billion, given by a few rich countries, including Norway and Britain, and could eventually involve transfers of tens of billions of dollars to developing countries that are similarly forsworn.

Whether Amazonas's progress points to similar success by REDD is not clear. Amazonas is unusual. Most of its forests are far from farmland, which makes the costs of leaving them standing relatively low. And its government is well-off, getting revenue from an industrial free-trade zone sited in the middle of the rainforest.

Mr Viana, who is no shrinking violet, rather downplays these particularities. Yet his message is an important one. Forests and other eco-systems provide valuable services; and if they are to be conserved, people must pay for them.

Books and Arts

The Economist

Lucian Freud

The painter in his studio

The view of a man who sat for him

Sep 23rd 2010

From afternoon to evening: Freud with nude and Gayford

Man With a Blue Scarf: On Sitting for a Portrait by Lucian Freud. By Martin Gayford. *Thames & Hudson; 256 pages; $40 and £18.95. Buy from Amazon.com, Amazon.co.uk*

A PATIENT observer of his sitters' slumps and bulges, Lucian Freud prefers not to subject himself to scrutiny. He rarely gives interviews. But Martin Gayford, an art critic who Mr Freud transformed into the painting "Man With a Blue Scarf", enjoyed several months of uninhibited access to the painter. His tightly framed study of the portraitist is an unexpectedly moving investigation of the artistic process.

Mr Freud is an indoor artist. Fittingly, the book is set in the large Georgian room that is one of the painter's two studios. The space is paint-smeared because he cleans his palette knife on the walls. Mr Gayford describes it as "a nest that LF has slowly, almost accidentally, constructed through the routines of his work."

Now aged 87, Mr Freud never takes a holiday. He is usually working on five or six paintings at the same time, always in the presence of his subject. He maintains firm distinctions between morning, afternoon and night pictures. Mr Gayford sat for his painting in the evening. In the morning Mr Freud worked on a painting of a horse; in the afternoon he painted Andrew Parker Bowles and a nude. He calls his nudes "naked portraits". Professional models are rarely suitable because Mr Freud wants the effect of "My God, you haven't got your clothes on!"

In an age of fast, factory-like studios, Mr Freud's pace is deliberate and unhurried. When Mr Gayford gets up to stretch, he takes a peek at the painting. "Despite what seemed to be plenty of vigorous activity with the brush", he writes, "little seems to have changed on the canvas. By the end of the evening two eyebrows have appeared, and a little flesh around the bridge of my nose." Mr Freud works up small sections to near completion; the surrounding canvas remains white. "The advantage of taking so long is that it allows me to include more than one expression," he explains.

The painter has an "omnivorous" exploratory gaze. He is searching for the awkward truth, the "weight, texture and irreducible uniqueness of what he sees." Determined that his paintings should emanate from his sitters rather than himself, Mr Freud seeks to capture their individuality.

“Quality in art is inextricably bound up with emotional honesty,” he says. At the same time, “a good likeness has nothing to do with its quality as a picture.”

Mr Gayford’s personal experience of sitting contributes a thread to the narrative. He likens posing for a portrait to a cross between “transcendental meditation and a visit to the barber’s.” When his eyes appear on the canvas, he senses that “there are now three of us in the studio.” As the work progresses, the painting becomes an alter ego and he worries about the “Dorian Gray possibility” that it will “reveal secrets—ageing, ugliness, faults—that I imagine…I am hiding from the world.” Then, the painting completed, Mr Freud says simply, “I think I’ll stop now.”

Books and Arts

The story of eels

Slithery, determined and mysterious

Slithery creatures, strangely determined

Sep 23rd 2010

Eels: An Exploration, from New Zealand to the Sargasso, of the World's Most Mysterious Fish. By James Prosek. *Harper, 287 pages; $25.99. Buy from* Amazon.com

IF EELS were pretty like butterflies or appealing like turtles, their fate might be happier. Though actually fish, they look like snakes—and worse, they are slimy. They should be loved for their ingenuity and resolve (as well as for their succulent flesh). Mostly, they are not. That unfairness is the central lament of James Prosek's comprehensive and appreciative study of one of the world's most mysterious creatures.

The bare outlines of the eels' life cycle are known: the females head to spawning grounds in mid-ocean, give birth and die; their offspring return as tiny youngsters to the home rivers, sometimes thousands of miles away. But nobody knows how they do it with such accuracy, or why eels spawn where they do.

Nor does anyone know how to breed eels in captivity. (Mr Prosek tried to keep some in a tank but they banged their heads against the sides until they had seizures and died.) Industrial eel farms buy baby eels and raise them for gourmands in Japan and elsewhere.

That appetite is huge, but the supply is dwindling. Like cod, eels used to be so plentiful that nobody believed they could be in trouble. Dams, agricultural chemicals, overfishing and other ills have led to a catastrophic drop in numbers, particularly in North America (where the first European settlers probably ate eel, not turkey, at the first Thanksgiving). But the overall eel population is not in danger of extinction (though some individual species are), so the authorities decline to protect them.

Mr Prosek's book may help change that. In 11 years of research he has collected anguilline myths, lore and recipes from all over the world, with particular emphasis on eel-worshipping in New Zealand and Polynesia. The footnotes are full of strange facts: eel blood, for example, may have been the toxin secreted in the Borgias' notorious rings. But the most striking bits of the book are about the eels' determination to get to their destination, weaving braids of living bodies to climb waterfalls and walls, and even crossing land where necessary.

Some of the stories are poignant, but rather too many are about Mr Prosek. He is a better observer than a narrator: a wiser editor might have removed the coy personal touches and lazy detail. "I made a note…in my notebook", he informs the unstartled reader. His silent, slithering subjects are more interesting than this.

Books and Arts

The Economist

Bärbel Bohley

Bärbel Bohley, artist and toppler of the Berlin Wall, died on September 11th, aged 65

Sep 23rd 2010

COURAGE rarely failed Bärbel Bohley. Others quailed at the hands of the East German secret police, the Stasi. Frail but steely, she mocked them: an eye for the absurd, she said, helped to keep her mental distance from those “brutal, cold, murderous, contemptuous people”. “I will get out of here; you won’t,” she once snapped at an interrogator.

She was right. Born in the ruins of Berlin in 1945, her early life was shaped by the post-war division of her country into western (soon West) Germany, and a Soviet-occupied zone that claimed to be the “German Democratic Republic”. But in the end it was not the bullying communists who shaped the wiry little painter. It was she who shaped them—and their downfall.

Her life as an artist started in her 30s, after unhappy early stints in industry and teaching. Her métier was brightly coloured pictures with dark angry lines, part abstract, part-figurative. Her inspiration, she said, came from Käthe Kollwitz, the great radical pacifist painter and print-maker of the Weimar years, venerated in post-war East Germany. The regime liked that, and her work: she won prizes, including a trip to the Soviet Union. But the promised Utopia turned out to be shockingly grim and grey. In 1980 the idealistic socialist convictions of her youth, long undermined by the regime’s hypocrisy, finally crystallised into ardent opposition.

She differed from cultured dissidents elsewhere in the communist world: it was not her work that angered the authorities, but the authorities that angered her. Her object was never to get power or set an agenda, but to rescue her country, and to get its citizens thinking and agitating for themselves: in the words of a friend, just ramming her “I” against the “we” imposed by the state.

Her protest started when she objected, loudly and scornfully, to her own tiny part in the Warsaw Pact’s military machine: being trained as a battlefield first-aider for the possibility of a nuclear attack from the West. She objected to women being drafted at all, and in 1982 formed Women for Peace to make the point.

The opposition she joined was tiny, mostly confined to a few parishes in the Protestant church, heavily infiltrated by the Stasi and weakened by the systematic exile of its leaders to the West. The authorities took the standard forms of vengeance. She was booted out of the official artists’ union, then jailed for six weeks for “treasonably” passing information to her friends in Western disarmament campaigns. She was banned from exhibiting her work in any gallery. Her son, not

enrolled in the communist youth movement, could not go to university. She carried on painting and agitating regardless.

At the start it seemed hopeless. The East Berlin regime was propped up not only by its ubiquitous secret police and a huge network of informers, but also by a monolithic control of the media and repressive capabilities ranging from the subtle to the brutal. Moreover, few East Germans appeared to want change. Democracy seemed as fanciful as Ms Bohley's other favourite cause, demilitarisation.

Only once did the regime crack her resolve, in 1988, when it persuaded her to leave the country for a six-month stay in Britain. Through a fug of cigarette smoke, her hosts found her intense, charming, stubborn and prickly. She returned to East Germany by subterfuge, to the chagrin of the authorities who had hoped to lose her.

But it was their turn to give up, not hers. Abandoned by its Soviet backers, demoralised by economic failure and having lost the will to kill, in late 1989 the regime crumbled in weeks. Ms Bohley and her friends in the newly founded New Forum opposition movement found power lying on the street and picked it up. She had no plans for it, but her message of personal dignity, civil courage and independent thought had triumphed. At least for a few weeks.

The tide went farther and faster than Ms Bohley had hoped. She wanted not simply to dissolve the GDR into West Germany, but to build something better and different: less greedy and more human, more Trabant than Mercedes. "East Germany needs its own style of living," she would say. But the people disagreed. Shopping, travelling and real money proved far more tempting than idealism.

Time to go

Ms Bohley mourned that, but did not bemoan it. Although she was keener on democracy than capitalism, she accepted the inevitable. Unification had mixed blessings, she said: "We wanted justice and we gained the rule of law." Not bad, but not quite the same thing. A convinced social democrat, she shocked friends by inviting Chancellor Helmut Kohl to her home in Berlin's grungy Prenzlauer Berg. But she loved the place and its camaraderie, detesting the yuppies with their "bronze doorbells" who moved in later.

After reunification she fought to hold the Stasi to proper account, perching in their offices to make sure the files were preserved for all to see. But thereafter she drifted off to do charity work in former Yugoslavia, modifying her pacifism in the process. In interviews and speeches she was a sharp if largely unheeded critic of the West's economic, political and spiritual failings. "Chic clothes but empty faces," she said.

Obituary

Overview

Sep 23rd 2010

The **euro area's** exports to countries outside the region grew by 18% in the year to the end of July, while imports expanded by 24%. The euro zone ran a trade surplus with the rest of the world of €6.7 billion ($8.6 billion) in that month.

Greece's current-account deficit in July was €1.48 billion, 11.1% lower than the it had been a year earlier.

Inflation in **America** fell slightly, to an annual 1.1% in August from 1.2% in July. Prices rose by 0.3% during the month. Core inflation, which strips away the effect of changes in volatile food and fuel prices, stayed at 0.9% for the fifth month in a row.

Consumer prices in **Canada** rose by 1.7% in the year to August. Prices were 0.1% lower than a month earlier.

Inflation picked up in several Asian countries in August. In **Hong Kong**, it quickened to 3%, compared with 1.3% in July. In Malaysia, August's 2.1% rate was the highest in 15 months.

Russia's unemployment rate fell slightly, to 6.9% in August from 7% the previous month. The number of Russians out of work stood at 5.2m in August.

The Reserve Bank of **India** raised both its policy rates for the fifth time this year. It increased the rate at which it lends to banks by 25 basis points to 6%, and raised the rate at which it borrows from them by half a percentage point, to 5%.

Unknown

Output, prices and jobs

Sep 23rd 2010

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2010†	2011†	latest	latest	year ago	2010†	rate‡, %
United States	+3.0 Q2	+1.6	+2.7	+2.4	+6.2 Aug	+1.1 Aug	-1.5	+1.6	9.6 Aug
Japan	+2.4 Q2	+1.5	+2.8	+1.4	+14.2 Jul	-0.9 Jul	-2.2	-0.8	5.2 Jul
China	+10.3 Q2	na	+9.9	+8.4	+13.9 Aug	+3.5 Aug	-1.2	+3.0	9.6 2009
Britain	+1.7 Q2	+4.9	+1.5	+1.9	+1.9 Jul	+3.1 Aug§	+1.6	+3.0	7.8 Jul††
Canada	+3.4 Q2	+2.0	+3.2	+2.7	+8.1 Jun	+1.7 Aug	-0.8	+1.8	8.1 Aug
Euro area	+1.7 Q2	+3.9	+1.5	+1.3	+7.1 Jul	+1.6 Aug	-0.2	+1.5	10.0 Jul
Austria	+2.3 Q2	+5.1	+1.2	+1.4	+5.7 Jun	+1.4 Aug	+0.5	+1.5	3.8 Jul
Belgium	+2.4 Q2	+3.7	+1.4	+1.4	+10.4 Jun	+2.3 Aug	-0.8	+1.9	11.3 May‡‡
France	+1.7 Q2	+2.6	+1.5	+1.4	+5.5 Jul	+1.4 Aug	-0.2	+1.7	10.0 Jul
Germany	+4.1 Q2	+9.0	+3.0	+1.9	+11.3 Jul	+1.0 Aug	nil	+1.0	7.6 Aug
Greece	-3.7 Q2	-6.8	-3.9	-3.5	-8.5 Jul	+5.5 Aug	+0.8	+4.5	11.6 Jun
Italy	+1.3 Q2	+1.8	+1.0	+1.0	+4.8 Jul	+1.6 Aug	+0.1	+1.5	8.4 Jul
Netherlands	+2.2 Q2	+4.0	+1.7	+1.5	+6.5 Jul	+1.5 Aug	+0.3	+1.2	5.3 Aug††
Spain	-0.1 Q2	+0.7	-0.3	+0.4	-1.6 Jul	+1.8 Aug	-0.8	+1.6	20.3 Jul
Czech Republic	+2.4 Q2	+3.8	+1.4	+2.0	+5.3 Jul	+1.9 Aug	+0.2	+1.6	8.6 Aug
Denmark	+2.8 Q2	+3.9	+1.5	+1.9	+0.5 Jul	+2.3 Aug	+1.1	+2.0	4.1 Jul
Hungary	+1.0 Q2	nil	+0.3	+2.5	+11.5 Jul	+3.7 Aug	+5.0	+4.5	11.0 Jul††
Norway	+0.6 Q2	-1.9	+1.0	+1.3	-7.8 Jul	+1.9 Aug	+1.9	+2.4	3.5 Jun§§
Poland	+3.5 Q2	na	+3.0	+3.4	+13.5 Aug	+2.0 Aug	+3.7	+2.5	11.4 Jul‡‡
Russia	+4.5 Q2	na	+4.5	+4.0	+5.9 Jul	+6.1 Aug	+11.6	+6.7	6.9 Aug‡‡
Sweden	+4.6 Q2	+8.0	+3.5	+2.7	+14.4 Jul	+0.9 Aug	-0.8	+1.3	7.4 Aug‡‡
Switzerland	+3.4 Q2	+3.5	+2.3	+1.9	+7.8 Q2	+0.3 Aug	-0.8	+0.9	3.8 Aug
Turkey	+10.3 Q2	na	+6.1	+3.6	+8.6 Jul	+8.3 Aug	+5.3	+8.4	10.5 Jun‡‡
Australia	+3.3 Q2	+4.9	+3.1	+3.3	+4.9 Q2	+3.1 Q2	+1.5	+2.9	5.1 Aug
Hong Kong	+6.5 Q2	+5.7	+5.9	+4.4	+2.2 Q2	+3.0 Aug	-1.6	+2.2	4.2 Aug††
India	+8.8 Q2	na	+8.0	+8.2	+13.8 Jul	+11.3 Jul	+11.9	+11.0	10.7 2009
Indonesia	+6.2 Q2	na	+5.9	+6.0	+4.9 Jun	+6.4 Aug	+2.8	+5.3	7.4 Feb
Malaysia	+8.9 Q2	na	+6.8	+4.2	+3.2 Jul	+2.1 Aug	-2.4	+1.8	3.3 Jul
Pakistan	+4.1 2010**	na	+4.4	+3.2	+4.7 Jun	+13.2 Aug	+10.7	+12.9	5.5 Jul
Singapore	+18.8 Q2	+24.0	+12.2	+4.1	+9.9 Jul	+3.3 Aug	-0.3	+2.6	2.2 Q2
South Korea	+7.2 Q2	+6.0	+6.5	+3.9	+15.5 Jul	+2.6 Aug	+2.2	+3.1	3.4 Aug
Taiwan	+12.5 Q2	+7.2	+9.2	+4.2	+23.4 Aug	-0.5 Aug	-0.8	+1.3	5.1 Aug
Thailand	+9.1 Q2	+0.6	+7.0	+4.0	+16.3 Jul	+3.3 Aug	-1.0	+3.5	1.5 May
Argentina	+11.8 Q2	+12.3	+6.8	+4.0	+3.0 Jul	+11.1 Aug***	+5.9	+10.8	7.9 Q2‡‡
Brazil	+8.8 Q2	+5.1	+7.2	+4.5	+8.7 Jul	+4.5 Aug	+4.4	+4.9	6.9 Jul‡‡
Chile	+6.5 Q2	+18.4	+4.8	+5.7	+3.3 Jul	+2.6 Aug	-1.0	+1.7	8.3 Jul††‡‡
Colombia	+4.4 Q1	+6.2	+4.6	+4.4	+0.2 Jul	+2.3 Aug	+3.1	+2.5	12.7 Jul‡‡
Mexico	+7.6 Q2	+13.5	+4.6	+3.0	+5.4 Jul	+3.7 Aug	+5.1	+4.2	5.7 Jul‡‡
Venezuela	-1.9 Q2	na	-3.8	-2.5	-1.6 Jun	+30.0 Aug	+28.8	+30.6	8.2 Q2‡‡
Egypt	+5.8 Q1	na	+5.0	+5.5	+4.4 Q1	+10.9 Aug	+9.0	+12.1	9.0 Q2‡‡
Israel	+4.8 Q2	+4.6	+3.2	+3.3	+19.7 Jul	+1.8 Aug	+3.1	+2.6	6.2 Q2
Saudi Arabia	+0.2 2009	na	+3.4	+3.7	na	+6.0 Jul	+4.2	+5.6	na
South Africa	+3.0 Q2	+3.2	+2.8	+3.7	+7.5 Jul	+3.7 Jul	+6.7	+4.9	25.3 Q2‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+3.5 Q2	na	+1.5	+3.2	+24.6 Jul	+2.9 Aug	-0.9	+2.4	18.6 Q2
Finland	+3.4 Q2	+8.0	+1.5	+1.6	+9.3 Jul	+1.2 Aug	-0.7	+1.1	8.3 Jul
Iceland	-8.6 Q2	-11.8	-1.2	+0.8	-6.9 2009	+4.5 Aug	+10.9	+6.0	7.3 Aug‡‡
Ireland	-0.7 Q1	+11.1	-0.6	+0.2	+12.0 Jul	+0.2 Aug	-5.9	-1.2	13.8 Aug
Latvia	-2.1 Q2	na	-2.3	+3.0	+18.0 Jul	-0.2 Aug	+1.8	-1.0	22.5 Apr
Lithuania	+1.1 Q2	+12.1	-0.5	+2.9	+3.2 May	+1.8 Aug	+2.6	+1.2	15.3 Jul‡‡
Luxembourg	+2.5 Q1	-2.0	+2.7	+2.0	+8.1 Jun	+2.2 Aug	+0.2	+2.0	5.7 Jul‡‡
New Zealand	+2.3 Q2	+1.5	+2.8	+3.2	+4.7 Q1	+1.8 Q2	+1.9	+3.4	6.8 Q2
Peru	+9.1 Jul	na	+7.0	+4.5	+21.6 Jun	+2.3 Aug	+1.9	+1.7	7.3 Jul‡‡
Philippines	+7.9 Q2	+5.3	+6.2	+4.3	+23.4 Jun	+4.0 Aug	+0.1	+4.2	6.9 Q3‡‡
Portugal	+1.5 Q2	+1.1	+0.6	-1.0	+1.5 Jul	+1.9 Aug	-1.3	+1.2	10.6 Q2‡‡
Slovakia	+4.6 Q1	na	+3.5	+3.3	+16.8 Jul	+1.1 Aug	+1.3	+1.4	12.2 Aug‡‡
Slovenia	+2.2 Q2	na	+1.3	+2.1	+7.1 Jul	+2.3 Aug	nil	+1.9	10.5 Jul‡‡
Ukraine	+12.0 Q1	na	+4.7	+3.9	+9.2 Aug	+8.3 Aug	+15.3	+9.8	1.4 Jul
Vietnam	+6.4 Q2	na	+6.4	+7.0	+15.2 Aug	+8.2 Aug	+2.0	+8.5	4.7 2008

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 4.7 in August. **Year ending June. ††Latest 3 months. ‡‡Not seasonally adjusted. §§Centred 3-month average. ***Unofficial estimates are higher.
Sources: National statistics offices and central banks; Thomson Reuters; Centre for Monitoring Indian Economy; OECD; ECB

Economic and Financial Indicators

The Economist commodity-price index

Sep 23rd 2010

The Economist commodity-price index

2000=100

	Sep 14th	Sep 21st*	% change on one month	% change on one year
Dollar index				
All items	232.7	236.9	+7.1	+23.8
Food	229.9	233.6	+6.4	+20.0
Industrials				
All	236.3	241.2	+8.1	+28.8
Nfa†	219.5	225.6	+9.8	+53.6
Metals	245.6	249.8	+7.2	+19.4
Sterling index				
All items	227.7	231.2	+6.5	+30.4
Euro index				
All items	165.8	166.8	+3.5	+39.5
Gold				
$ per oz	1,269.95	1,275.67	+4.1	+25.7
West Texas Intermediate				
$ per barrel	76.74	73.05	+1.9	+2.1

*Provisional †Non-food agriculturals.

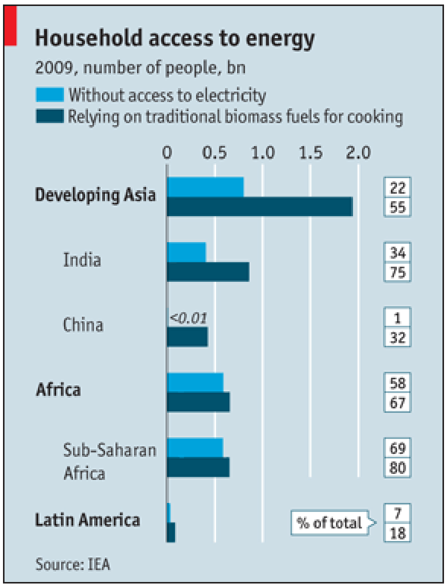
Economic and Financial Indicators

The Economist

Household access to energy

Sep 23rd 2010

Most people in rich countries take electricity for granted, but many people in poorer ones still live life off the grid. According to the International Energy Agency, 1.44 billion people lacked access to electricity in 2009. All but 3m of them live outside the rich world, the vast majority in villages. India, with 404m citizens not connected to the grid, has slightly more than half of all the people in Asia's developing countries who live without electricity. Almost all of the 587m Africans who make do without electricity live in sub-Saharan Africa. Some 2.7 billion people across the world still cook on inefficient stoves that burn polluting fuels based on biomass like cowdung, firewood or crop residue.



Economic and Financial Indicators

The Economist

Trade, exchange rates, budget balances and interest rates

Sep 23rd 2010

Trade, exchange rates, budget balances and interest rates

	Trade balance*	Current-account balance		Currency units, per $		Budget balance	Interest rates, %	
	latest 12 months, $bn	latest 12 months, $bn	% of GDP 2010†	Sep 22nd	year ago	% of GDP 2010†	3-month latest	10-year gov't bonds, latest
United States	−604.7 Jul	−430.9 Q2	−3.2	-	-	−9.0	0.23	2.54
Japan	+87.5 Jul	+180.3 Jul	+3.4	84.5	91.4	−7.6	0.19	1.00
China	+179.0 Aug	+286.8 Q2	+4.9	6.71	6.83	−2.2	2.57	3.02
Britain	−138.1 Jul	−33.7 Q1	−1.6	0.64	0.61	−10.1	0.80	3.07
Canada	−5.6 Jul	−41.1 Q2	−2.2	1.03	1.07	−4.6	0.91	2.86
Euro area	+12.9 Jul	−68.2 Jul	−0.3	0.75	0.68	−6.5	0.88	2.34
Austria	−5.6 Jun	+8.7 Q1	+1.5	0.75	0.68	−5.1	0.88	2.82
Belgium	+20.6 Jun	+0.1 Mar	+0.1	0.75	0.68	−5.7	0.89	3.16
France	−65.1 Jul	−51.5 Jul	−2.0	0.75	0.68	−7.9	0.88	2.70
Germany	+207.9 Jul	+179.0 Jul	+5.2	0.75	0.68	−3.7	0.88	2.34
Greece	−42.7 Jun	−37.0 Jul	−6.2	0.75	0.68	−9.5	0.88	11.05
Italy	−22.3 Jul	−72.9 Jul	−2.8	0.75	0.68	−5.2	0.88	3.87
Netherlands	+50.1 Jul	+46.9 Q1	+5.8	0.75	0.68	−6.1	0.88	2.54
Spain	−72.7 Jun	−74.9 Jun	−4.2	0.75	0.68	−9.6	0.88	4.13
Czech Republic	+8.0 Jul	−3.4 Jul	−3.3	18.3	17.0	−5.4	1.21	3.42
Denmark	+14.9 Jul	+15.6 Jul	+2.3	5.55	5.04	−5.6	1.18	2.43
Hungary	+6.8 Jul	+1.9 Q1	−0.3	208	184	−3.9	5.38	6.93
Norway	+54.7 Aug	+54.9 Q2	+14.8	5.88	5.80	9.5	2.62	3.19
Poland	−5.6 Jul	−10.9 Jul	−2.8	2.94	2.83	−3.0	3.83	5.48
Russia	+154.7 Jul	+82.2 Q2	+5.0	31.0	30.0	−3.9	7.75	5.37
Sweden	+9.1 Jul	+29.2 Q2	+6.8	6.84	6.82	−1.8	1.19	2.55
Switzerland	+19.8 Aug	+59.6 Q1	+8.9	0.99	1.02	−0.4	0.18	1.35
Turkey	−55.3 Jul	−30.3 Jul	−4.6	1.49	1.48	−4.5	7.68	4.06‡
Australia	−0.8 Jul	−49.5 Q2	−3.9	1.05	1.15	−2.4	4.83	5.10
Hong Kong	−42.9 Jul	+17.0 Q1	+8.0	7.76	7.75	0.5	0.33	1.94
India	−121.8 Aug	−38.4 Q1	−1.7	45.6	48.0	−5.5	6.19	8.16
Indonesia	+19.5 Jul	+9.7 Q2	+1.5	8,958	9,700	−1.5	6.94	4.12‡
Malaysia	+35.9 Jul	+29.2 Q2	+13.9	3.09	3.47	−5.3	2.92	2.74‡
Pakistan	−15.6 Aug	−3.5 Q2	−1.2	85.9	83.0	−6.3	12.76	9.32‡
Singapore	+16.7 Aug	+37.0 Q2	+18.1	1.33	1.41	−0.7	0.50	2.00
South Korea	+39.6 Aug	+34.1 Jul	+3.2	1,161	1,194	−1.8	2.67	4.18
Taiwan	+14.9 Aug	+40.4 Q2	+9.3	31.7	32.4	−1.8	1.11	1.06
Thailand	+12.9 Jul	+12.8 Jul	+3.9	30.6	33.5	−2.2	1.42	2.86
Argentina	+13.9 Jul	+8.0 Q2	+2.1	3.95	3.84	−2.5	12.38	na
Brazil	+17.1 Aug	−45.8 Aug	−2.8	1.72	1.79	−2.1	10.66	6.16‡
Chile	+13.8 Aug	+3.2 Q2	+0.5	494	539	−2.1	2.88	2.15‡
Colombia	+1.0 Jul	−5.4 Q1	−1.8	1,802	1,915	−3.6	3.46	3.97‡
Mexico	−2.2 Jul	−5.2 Q2	−1.4	12.7	13.4	−1.0	4.36	6.20
Venezuela	+31.1 Q2	+20.1 Q2	+9.2	5.30	na	−3.2	14.51	6.55‡
Egypt	−24.2 Q1	−3.6 Q1	+0.2	5.70	5.50	−8.3	9.50	5.18‡
Israel	−5.0 Aug	+8.0 Q2	+2.4	3.69	3.73	−4.0	1.74	3.70
Saudi Arabia	+105.2 2009	+22.8 2009	+12.4	3.75	3.75	2.6	0.72	na
South Africa	−0.9 Jul	−10.9 Q2	−5.0	7.02	7.45	−7.3	5.98	7.89
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−1.0 Jul	+0.8 Jul	+1.5	11.7	10.6	−2.6	1.18	na
Finland	+3.9 Jul	+6.4 Jul	+2.2	0.75	0.68	−3.5	0.88	2.57
Iceland	+0.9 Aug	−0.6 Q2	+0.8	115	124	−7.4	5.22	na
Ireland	+55.0 Jun	−5.2 Q1	−1.9	0.75	0.68	−26.5	0.88	6.42
Latvia	−1.4 Jul	+2.2 Jul	+7.7	0.53	0.48	−8.0	0.81	na
Lithuania	−2.2 Jul	+1.5 Jul	+3.3	2.57	2.34	−8.5	1.66	na
Luxembourg	−6.3 Jun	+4.3 Q1	na	0.75	0.68	−2.0	0.88	na
New Zealand	+0.4 Jul	−7.9 Q2	−3.0	1.35	1.38	−3.8	3.38	5.24
Peru	+7.0 Jul	−0.3 Q2	−0.1	2.79	2.87	−1.4	2.95	na
Philippines	−4.0 Jun	+8.5 Mar	+3.9	43.9	47.4	−3.9	4.31	na
Portugal	−27.6 Jul	−23.5 Jul	−8.2	0.75	0.68	−8.3	0.88	6.11
Slovakia	+2.1 Jul	−2.6 Jun	−3.5	22.5	20.4	−6.7	1.35	2.96
Slovenia	−1.6 Jul	−0.3 Jul	−1.4	0.75	0.68	−5.5	0.88	na
Ukraine	−4.8 Q2	−0.7 Q2	+0.5	7.94	8.51	−6.0	3.75	na
Vietnam	−15.5 Aug	−9.2 2008	−9.6	19,490	17,829	−7.7	10.21	4.57

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit estimate. ‡Dollar-denominated bonds. Sources: National statistics offices and central banks; Bloomberg; Thomson Reuters; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Hong Kong Monetary Authority; JPMorgan; Standard Bank Group; UBS; Westpac.

The Economist

Markets

Sep 23rd 2010

Markets

	Index	% change on		
			Dec 31st 2009	
	Sep 22nd	one week	in local currency	in $ terms
United States (DJIA)	10,739.3	+1.6	+3.0	+3.0
United States (S&P 500)	1,134.3	+0.8	+1.7	+1.7
United States (NAScomp)	2,334.6	+1.4	+2.9	+2.9
Japan (Nikkei 225)	9,566.3	+0.5	-9.3	nil
Japan (Topix)	846.5	-0.2	-6.7	+2.8
China (SSEA)	2,715.0	-2.3	-21.0	-19.6
China (SSEB, $ terms)	254.8	-1.6	-0.8	+0.9
Britain (FTSE 100)	5,551.9	-0.1	+2.6	-0.5
Canada (S&P TSX)	12,147.3	nil	+3.4	+5.4
Euro area (FTSE Euro 100)	868.6	-1.2	-5.1	-11.3
Euro area (DJ STOXX 50)	2,752.8	-1.5	-7.2	-13.2
Austria (ATX)	2,510.3	nil	+0.6	-6.0
Belgium (Bel 20)	2,575.2	-1.1	+2.5	-4.2
France (CAC 40)	3,735.1	-0.5	-5.1	-11.3
Germany (DAX)*	6,208.3	-0.9	+4.2	-2.6
Greece (Athex Comp)	1,512.4	-3.1	-31.1	-35.6
Italy (FTSE/MIB)	20,365.3	-2.4	-12.4	-18.1
Netherlands (AEX)	334.4	-0.4	-0.3	-6.8
Spain (Madrid SE)	1,089.0	-2.0	-12.3	-18.0
Czech Republic (PX)	1,129.2	-1.1	+1.1	+1.4
Denmark (OMXCB)	388.9	+0.2	+23.2	+15.0
Hungary (BUX)	22,807.8	-3.2	+7.4	-2.6
Norway (OSEAX)	418.4	+0.2	-0.4	-2.2
Poland (WIG)	44,811.0	+1.3	+12.1	+8.9
Russia (RTS, $ terms)	1,477.0	-0.5	+4.5	+2.2
Sweden (OMXS30)	1,085.1	+0.5	+14.0	+19.1
Switzerland (SMI)	6,344.9	-1.4	-3.1	+1.7
Turkey (ISE)	64,479.1	+1.7	+22.1	+23.2
Australia (All Ord.)	4,674.7	-0.6	-4.3	+2.1
Hong Kong (Hang Seng)	22,047.7	+1.5	+0.8	+0.7
India (BSE)	19,941.7	+2.3	+14.2	+16.6
Indonesia (JSX)	3,343.3	-0.4	+31.9	+38.4
Malaysia (KLSE)	1,474.8	+0.1	+15.9	+28.4
Pakistan (KSE)	9,946.4	-1.0	+6.0	+4.1
Singapore (STI)	3,096.1	+0.8	+6.8	+13.1
South Korea (KOSPI)	1,832.6	+0.5	+8.9	+9.2
Taiwan (TWI)	8,196.4	+0.4	+0.1	+1.1
Thailand (SET)	945.0	+2.6	+28.7	+40.0
Argentina (MERV)	2,531.6	+3.8	+9.1	+4.9
Brazil (BVSP)	68,325.1	+0.3	-0.4	+1.0
Chile (IGPA)	22,323.0	-0.9	+34.2	+37.8
Colombia (IGBC)	14,170.4	+0.5	+22.1	+38.5
Mexico (IPC)	33,207.2	+0.5	+3.4	+6.4
Venezuela (IBC)	65,184.5	-0.2	+18.4	na
Egypt (Case 30)	6,677.0	+1.7	+7.5	+3.4
Israel (TA-100)	1,133.0	+3.9	+6.4	+9.1
Saudi Arabia (Tadawul)†	6,434.9	+1.0	+5.1	+5.1
South Africa (JSE AS)	28,722.7	+0.8	+3.8	+8.8
Europe (FTSEurofirst 300)	1,066.5	-1.7	+2.0	-4.7
World, dev'd (MSCI)	1,170.5	+1.0	+0.2	+0.2
Emerging markets (MSCI)	1,048.0	+0.9	+5.9	+5.9
World, all (MSCI)	302.2	+1.0	+0.9	+0.9
World bonds (Citigroup)	877.7	+1.7	+5.7	+5.7
EMBI+ (JPMorgan)	554.4	-0.1	+12.4	+12.4
Hedge funds (HFRX)	1,172.2	0.5	+1.3	+1.3
Volatility, US (VIX)	22.5	22.1	21.7	(levels)
CDSs, Eur (iTRAXX)‡	96.0	-8.5	+37.1	+28.2
CDSs, N Am (CDX)‡	117.3	+0.9	+7.9	+7.9
Carbon trading (EU ETS) €	15.0	-2.5	+18.7	+11.0

*Total return index. †Sep 21st. ‡Credit-default-swap spreads, basis points. Sources: National statistics offices, central banks and stock exchanges; Thomson Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac

Petrol tax

Sep 23rd 2010

Most countries tax petrol, but the extent to which they do so varies enormously. According to the OECD, America's gasoline taxes are among the lowest in the developed world. Germans pay an average of $3.25 in taxes on a gallon of petrol, among the highest for the OECD's mostly rich members. Citizens of other European countries such as Finland, France and Norway (not shown) also fork out more than $3 per gallon in tax. But America's gasoline taxes average a mere $0.39. America's reluctance to tax petrol heavily helps to explain why Americans drive much more than Europeans (though the country's size is a factor too), and why they love gas-guzzlers. Mexico is the only OECD country that subsidises petrol.

Economic and Financial Indicators